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100th Congress, 1st Session

H. Rept. No. 100-433

S. Rept. No. 100-216

Report of the Congressional Committees Investigating the

Iran-Contra Affair

Appendix B: Volume 17

Depositions

U.S. House of Representatives
Select Committee to Investigate
Covert Arms Transactions with Iran

U.S. Senate Select Committee
On Secret Military Assistance to Iran
And the Nicaraguan Opposition

S 963-19
H 963-19

Union Calendar No. 277

100th Congress, 1st Session

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Report of the Congressional Committees Investigating the Iran-Contra Affair

Appendix B: Volume 17

Depositions

Lee H. Hamilton, *Chairman,*
House Select Committee
Daniel K. Inouye, *Chairman,*
Senate Select Committee

U.S. House of Representatives
Select Committee to Investigate
Covert Arms Transactions with Iran

U.S. Senate Select Committee
On Secret Military Assistance to Iran
And the Nicaraguan Opposition

November 13, 1987.—Committed to the Committee of the Whole House
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November 17, 1987.—Ordered to be printed.

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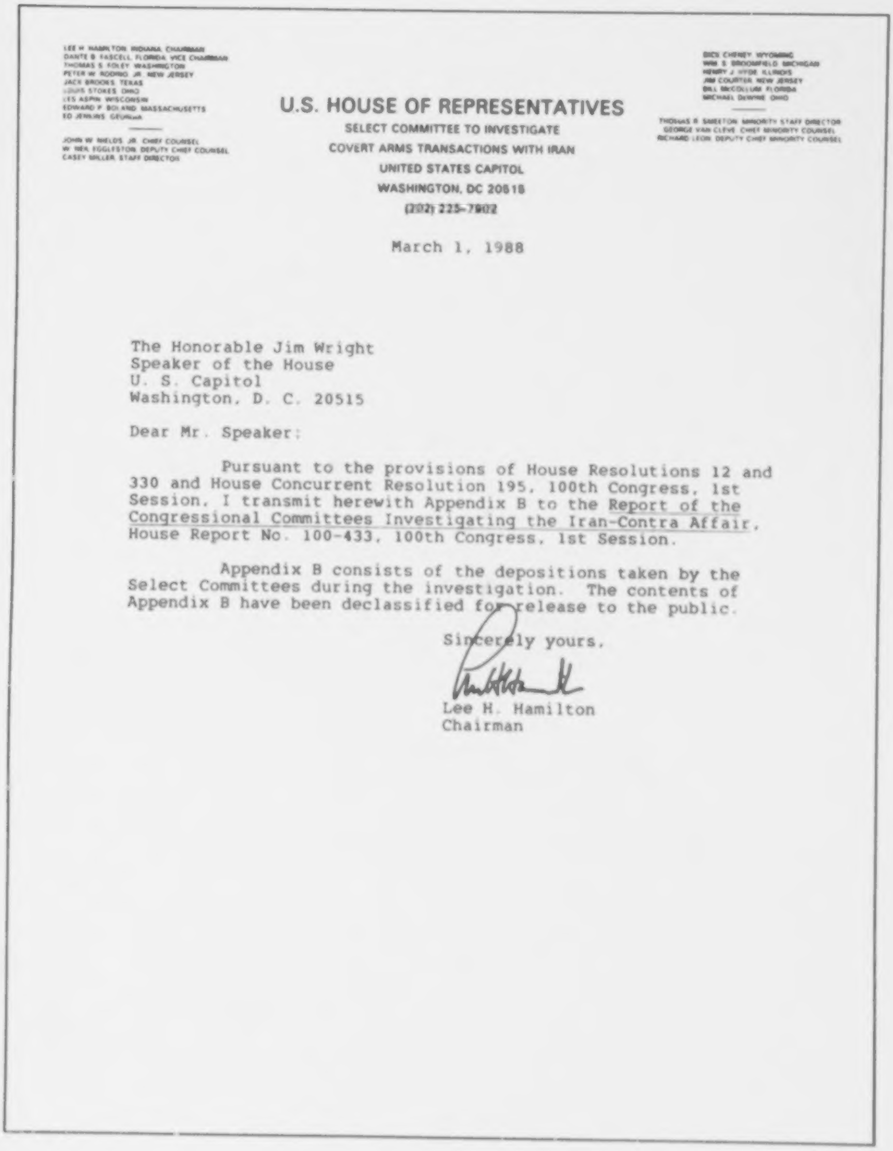

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March 1, 1988

The Honorable Jim Wright
Speaker of the House
U. S. Capitol
Washington, D. C. 20515

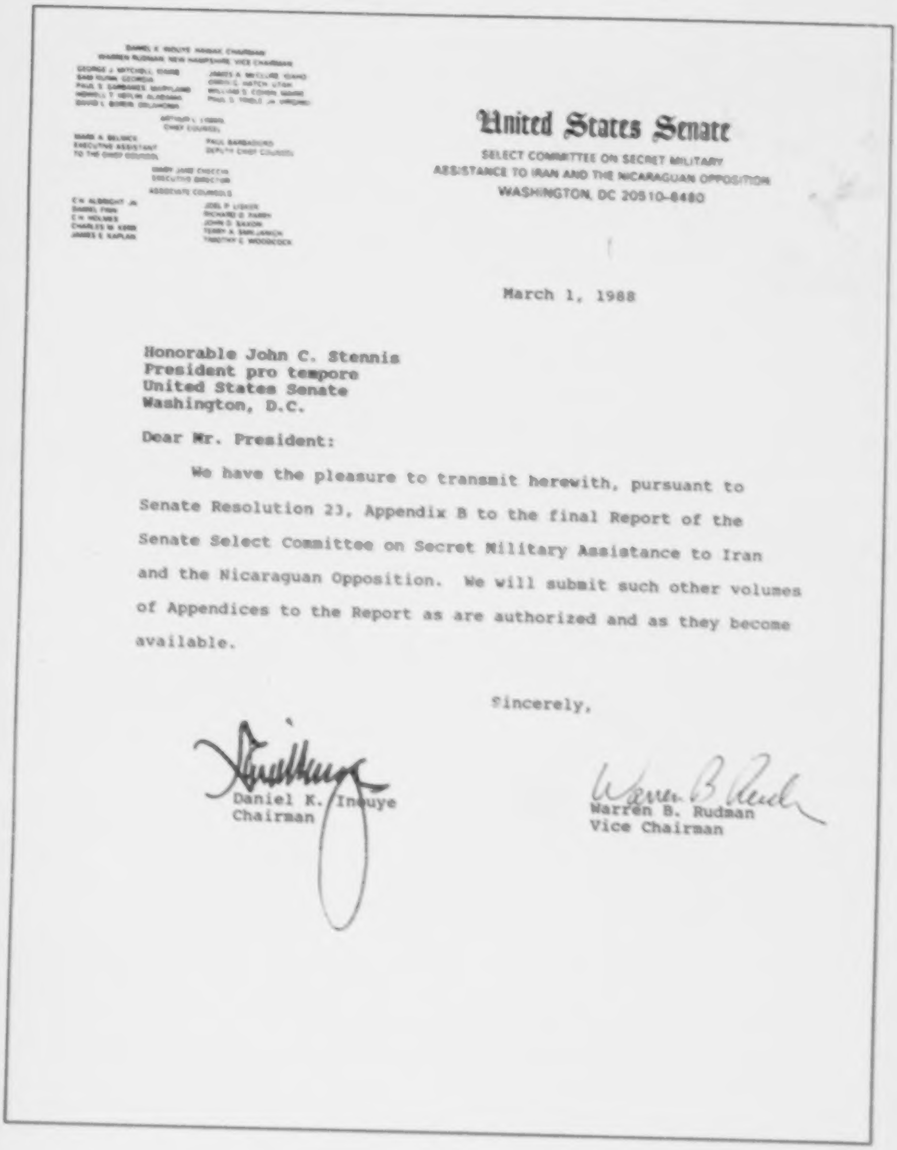
Dear Mr. Speaker:

Pursuant to the provisions of House Resolutions 12 and 330 and House Concurrent Resolution 195, 100th Congress, 1st Session, I transmit herewith Appendix B to the Report of the Congressional Committees Investigating the Iran-Contra Affair, House Report No. 100-433, 100th Congress, 1st Session.

Appendix B consists of the depositions taken by the Select Committees during the investigation. The contents of Appendix B have been declassified for release to the public.

Sincerely yours,

Lee H. Hamilton
Chairman



United States Senate

SELECT COMMITTEE ON SECRET MILITARY
ASSISTANCE TO IRAN AND THE NICARAGUAN OPPOSITION
WASHINGTON, DC 20510-6480

March 1, 1988

Honorable John C. Stennis
President pro tempore
United States Senate
Washington, D.C.

Dear Mr. President:

We have the pleasure to transmit herewith, pursuant to Senate Resolution 23, Appendix B to the final Report of the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition. We will submit such other volumes of Appendices to the Report as are authorized and as they become available.

Sincerely,

Daniel K. Inouye
Chairman

Warren B. Rudman
Vice Chairman

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Preface

The House Select Committee to Investigate Covert Arms Transactions with Iran and the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition, under authority contained in the resolutions establishing them (H. Res. 12 and S. Res. 23, respectively), deposed approximately 290 individuals over the course of their 10-month joint investigation.

The use of depositions enabled the Select Committees to take sworn responses to specific interrogatories, and thereby to obtain information under oath for the written record and develop lines of inquiry for the public hearings.

Select Committees Members and staff counsel, including House minority counsel, determined who would be deposed, then sought subpoenas from the Chairmen of the Select Committees, when appropriate, to compel the individuals to appear in nonpublic sessions for questioning under oath. Many deponents received separate subpoenas ordering them to produce certain written documents.

Members and staff traveled throughout the United States and abroad to meet with deponents. All depositions were stenographically reported or tape-recorded and later transcribed and duly authenticated. Deponents had the right to review their statements after transcription and to suggest factual and technical corrections to the Select Committees.

At the depositions, deponents could assert their fifth amendment privilege to avoid self-incrimination by refusing to answer specific questions. They were also entitled to legal representation. Most Federal Government deponents were represented by lawyers from their agency; the majority of private individuals retained their own counsel.

The Select Committees, after obtaining the requisite court orders, granted limited or "use" immunity to about 20 deponents. Such immunity means that, while a deposed individual could no longer invoke the fifth amendment to avoid answering a question, his or her compelled responses—or leads or collateral evidence based on those responses—could not be used in any subsequent criminal prosecution of that individual, except a prosecution for perjury, giving a false statement, or otherwise failing to comply with the court order.

An executive branch Declassification Committee, located in the White House, assisted the Committee by reviewing each page of deposition transcript and some exhibits and identifying classified matter relating to national security. Some depositions were not reviewed or could not be declassified for security reasons.

In addition, members of the House Select Committee staff corrected obvious typographical errors by hand and deleted personal and proprietary information not considered germane to the investigation.

In these *Depositions* volumes, some of the deposition transcripts are followed by exhibits. The exhibits—documentary evidence—were developed by Select Committees' staff in the course of the Select Committees' investigation or were provided by the deponent in response to a subpoena. In some cases, where the number of exhibits was very large, the House Select Committee staff chose for inclusion in the *Depositions* volumes selected documents. All of the original exhibits are stored with the rest of the Select Committees' documents with the National Archives and Records Administration and are available for public inspection subject to the respective rules of the House and Senate.

The 27 volumes of the *Depositions* appendix, totalling more than 30,000 pages, consist of photocopies of declassified, hand-corrected typewritten transcripts and declassified exhibits. Deponents appear in alphabetical order.

Publications of the House and Senate Select Committees

Report of the Congressional Committees Investigating the Iran-Contra Affair, 1 volume, 1987.

Appendix A: *Source Documents,* 2 volumes, 1988.
Appendix B: *Depositions,* 27 volumes, 1988.
Appendix C: *Chronology of Events,* 1 volume, 1988.

All publications of the Select Committees are available from the U.S. Government Printing Office.

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Stenographic Transcript of HSITS 130 /87

HEARINGS

Before the ORIGINAL

SELECT COMMITTEE ON SECRET MILITARY ASSISTANCE
TO IRAN AND THE NICARAGUAN OPPOSITION

UNITED STATES SENATE

DEPOSITION OF JOHN N. MC MAHON

Monday, June 1, 1987

Washington, D.C.

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Partially Declassified/Released on Oct 7, 198
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by B. Reger, National Security Council

DEPOSITION OF JOHN N. McMAHON

Monday, June 1, 1987

United States Senate
Select Committee on Secret
Military Assistance to Iran
and the Nicaraguan Opposition
Washington, D. C.

Deposition of JOHN N. McMAHON, called as a witness by counsel for the Select Committee, at the offices of the Select Committee, Room SH-901, Hart Senate Office Building, Washington, D. C., commencing at 10:50 a.m., the witness having been duly sworn by MICHAL ANN SCHAFER, a Notary Public in and for the District of Columbia, and the testimony being taken down by Stenomask by MICHAL ANN SCHAFER and transcribed under her direction.

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APPEARANCES:

On behalf of the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition:

PAUL BARBADORO, ESQ.
THOMAS POLGAR

On behalf of the House Select Committee to Investigate Covert Arms Transactions with Iran:

W. NEIL EGGLESTON, ESQ.
Deputy Chief Counsel
RICHARD J. LEON, ESQ.
Deputy Chief Minority Counsel

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P R O C E E D I N G S

Whereupon,

JOHN N. McMAHON,

called as a witness by counsel on behalf of the Senate Select Committee and having been duly sworn by the Notary Public, was examined and testified as follows:

EXAMINATION ON BEHALF OF THE SENATE COMMITTEE

BY MR. BARBADORO:

Q Could you state your name, please?

A John N. McMahon.

Q Mr. McMahon, when did you become Deputy Director of Central Intelligence?

A In June 1982.

Q And when did you retire from the Agency?

A March 29, 1986.

Q How long were you with the Central Intelligence Agency?

A About 34-1/2 years.

Q And I'm sure you've had a lot of assignments during that period, but could you give us a brief overview of your career with the Agency?

A Indeed. When I came down to Washington after college I went to Georgetown Law School and decided that I needed to eat, so I got a job working nights with CIA in their communications, what they called their Cable

Secretariat. And I did that for a semester, lost 25 pounds, and CIA asked me if I'd like to go overseas to [redacted]

And I said indeed I would. So I went overseas. I left school at the end of that semester and went into training in communications during the first part of '52, and then went overseas in June '52, initially in commo. I left that, joined the European Division, which was then the DDP, working in the Cable Secretariat, which I did up through about 1954.

I came back on home leave and then went back and worked briefly in admin.

Q You mean administration?

A Administration. And then a notable gentleman who was working with [redacted] decided to leave and return to Washington and his name was [redacted] and [redacted] needed someone to help him out, so I went down there and kind of became his aide. And [redacted] was soon replaced by [redacted] and I stayed on as [redacted] aide, which was basically reviewing all the correspondence, getting it ready for him, being his bag carrier when he traveled.

I came back from overseas and at that time I had two children and my draft deferment status continued from student to overseas with the Agency, and then with two kids, but I wanted to get my military obligation over with rather than have it hang over my head to the age 35. So I volunteered to be enlisted in the draft. The Army wouldn't take me because they figured I was trying to run away from my home obligations with two kids, but the Agency prevailed upon the draft board and they drafted me. And I served a little over six months with the Army and was given an honorable discharge to return back to the Agency.

I worked briefly in an organization known as Central Processing, which offered me the opportunity to have experience in administration, personnel, logistics, finance, and travel, and I did that for about nine months and was recruited for [redacted]

And then, after a little over a year of that, I was appointed the Executive Officer of the Division,

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and that was rather strange, because I was only then a GS-11 and this would be the equivalent of a 15 or 16 job. But I took that on principally because I have good rapport throughout the organization and the two people running that organization, the Chief and the Deputy, had a communications problem. So I was put in kind of as a buffer. The Division there had not only the responsibility for [redacted] And I stayed there for a number of years, [redacted]

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[redacted]

So I did that routine with the comptroller and trying to work with [redacted] for a while, and then a gentleman by the name of Bud Wheelon, Dr. Wheelon, who is now Chairman of the Board of Hughes, was appointed DDS&T and his job was to pull together all R&D activities in the United States.

Q What is DDS&T?

A Deputy Director for Science and Technology. And he was to pull together all of the research and development activities in the Agency, as well as do the analytical work associated with science [redacted] in 1970, I moved with that office [redacted]

[redacted]

We operated that and I became Director of that office, [redacted] And I worked that job for three years.

Then Schlesinger came in, [redacted] Schlesinger asked that I go over and take over that office.

So I went down and we renamed the office [redacted]

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this cat who knew nothing about either operations or their business was their boss.

That was a fantastic office. [redacted]

I had that job for maybe a year and a half, and Bill Colby, who was then Director, asked that I become the Associate Deputy Director of Administration, and I went over there and did that for a year or two, and then George Bush came in as Director, and he was given the charter under the Executive Order to prepare a consolidated budget for all intelligence activities.

Up to that point in time, the DCI had "responsibility for the intelligence community", such as the Defense Intelligence or NSA or what have you, but he had no clout because he didn't have budget authority.

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And Jerry Ford's Executive Order gave the DCI the responsibility for pulling it together, except it fell short. It gave him no authority. So we still had to go around and say pretty please, but I guess we did it in a sufficient manner that the various agencies told us what their budget was. But we still couldn't do anything about it.

But at least we published the first consolidated budget that the U.S. ever had on all its intelligence activities, national intelligence activities.

Then, as you know, with the election of Carter -- yes, Bush left and Stan Turner came in as Director. And Stan Turner was a four-star Admiral; my boss in the Intelligence Community Staff then was Dan Murphy, who was also a four-star Admiral. And it was deemed that we couldn't have two four-star Admirals in the same shop, so Murphy left in April and that would have been April '77.

And I stayed on in both jobs, as the Acting Deputy to the DCI for Intelligence Community and also as the Associate, and I held that job until January '78. Turner came to me, I guess in July or August, and wanted to know who would be a good DDO because he wanted to make a replacement there. And I gave him several names and he checked them out and finally -- I think it was in October

-- he said he wanted me to be the DDO.

I told him that that would be a mistake, that the DDO had suffered immensely and I think to an appreciable degree wrongly under the Pike and Church Committee investigations, and that the worst thing Turner could do is to put a non-DDO in there, particularly since he had gained the reputation of being non-interested in HUMINT and was more technical, and to take someone who had basically S&T background and put him in as the DDO would be bad.

So I argued that for several months, and finally in December he told me that if I didn't take the job he was going outside the Agency for the DDO. So I took the job and I held the job as the Deputy Director for Operations until --

MR. EGGLESTON: December of which year?

THE WITNESS: I took it in January 1978 and I held it until 1981. And Casey asked me to take over what is now the DDI, Deputy Director for Intelligence. It was known at that time as the National Foreign Assessment Center, and that's where we do our basic intelligence analytical work and intelligence production.

I did that reluctantly. In fact, I suggested that it would be a good time for me to retire, since I was eligible for retirement under the Agency retirement program. And he asked me not to do that, that he felt that something was wrong in the DDI and he wanted me to go in and try and find out what it was. I told him he was talking to the wrong guy because I didn't know how an analyst thought or ticked.

But, at any rate, I went into the DDI and I was impressed. When I was the Deputy Director for Operations I read just about every piece of intelligence that the DDI produced because I wanted to see whether our appropriations were making an impact as well as being informed as to what was going on in the world.

[redacted]

And when I went to the DDI I realized that the reason for that was that our analytical process was segmented. It was a functional organization. We had economists in one organization which would address worldwide things. We had political scientists that addressed the political things. We had military people.

And as papers would come to me as DDI and I wanted to ask a question on what was going on in [redacted] I would get three or four inputs and I'd have to integrate what was going on in [redacted] because I got a political view, an economic view, and a military view.

I thought that was all wrong, and I didn't think that was my job, to do intelligence integration. So to figure out how the organization ticked and how the people worked -- are you interested in all this, by the way?

BY MR. BARBADORO: (Resuming)

Q I'm very interested in it, but if we hope to do this deposition in three or four hours we probably should focus a little more and just tell me what your assignments were.

A Okay.

MR. EGGLESTON: But that was so interesting we didn't interrupt.

THE WITNESS: At any rate, I decided to reorganize. I reorganized regionally. I put all the analysts on a specific country together, regardless of what they were doing, and they could produce a finished integrated process, and that mirrored how State Department worked. It was regional in function as well.

So that was a big reorganization and a great trauma. But after a few months it began to take hold and the analysts thought it was a great idea.

Then Casey said to me that he was going to set up or put new life in a dormant position known as the Executive Director, and the Executive Director would be responsible for the day-to-day management of CIA and Bobby Inman, who was the Deputy Director of CI, would worry principally about the community and the outside.

So in January 1982 I assumed that position and held it to June '82, when I was made the DDCI.

BY MR. BARBADORO: (Resuming)

Q Other than your time as DDO did you have any other assignments in the Operations Directorate?

A One. For a few months after I got out of the Army I worked in [redacted] the European Division, but that was not substantive. We were trying to figure out how to bring automation to the handling of files.

Q And other than your time as DDI had you had any assignments in the Intelligence Directorate?

A No.

Q I'll ask you another question that might call for a long answer. I'll ask you to try to --

A Hold your hand up if it gets too long.

Q And I want to ask you to describe for me the job of DDCI when you were there.

A It covered all aspects of running CIA as well as running the community. Casey and I did not really divvy up the pie, so to speak, and we more or less prepared ourselves for meetings with duplicate books. If we were having a meeting, say with Bill Clark or McFarlane or Poindexter, the staff people would prepare two books, and we'd prepare that.

If there was an NSC meeting, two books would be prepared, and we'd both do it or both prepare for it, and either he'd go or I would go. So we were both kind of up to speed on everything that was going on.

We tried to give feedback to one another by just opening the door and walking in. Sometimes that worked and sometimes that didn't, but if something came up that I wasn't aware of it was very easy to go find someone who knew what was going on and fill in. And Bill Casey did a fair amount of travel, so that meant that there had to be a fair degree of continuity between both our jobs, and I felt that we had a very easy relationship and fairly good communications.

Q You've alluded to this. What was your relationship with the Director?

A Well, I didn't know him until he came in as Director, but it was kind of a no holds barred arrangement. If I disagreed with something, I felt totally at ease to disagree with him. But I never felt that there was a strain at all between us, and he has a delightful sense of humor with a great deal of wisdom. He's a very smart guy. His bumbling and mumbling is very deceptive in that regard.

But he had a very fertile mind, was always thinking. He never saw an event in isolation. He would look at the ramifications. If there was an incident in some country, he would look to see where that might bulge out elsewhere in the world. So he always had a global outlook on things. He was constantly on top of trying to improve the analytical process, not only by bringing in more analysts into the Agency but encouraging the analysts to get outside the Agency and to talk to academicians and to talk to people, businessmen, who had experience in the countries and try and bring in all available scraps of information on any given issue or any given country.

And I think his forte, quite apart from his notoriety on covert actions, I think his forte was really in improving the analytical process and making everyone in that process feel like they were very much a part of that action.

Q Did you feel that you had the Director's trust?

A Yes.

Q Were there operations that the Central Intelligence Agency was involved in that you were not briefed on?

A I don't think so.

Q When internal memoranda would come up through the executive registry to the DCI would you ordinarily see those documents?

A Normally I would get a copy of that, yes.

Q When cables would come up, DCI Eyes Only, would you see those cables?

A Not always. The way I worked in my office, I had an assistant that screened all the correspondence and all the traffic, and we would usually get together around 6:00 at night and she would give me a brief on all the issues and events that came in during the day, and then if there were papers to sign I would sign them. So I used her as a screening process to cull out the things of interest or non-interest.

So I seldom saw cable traffic, but I was briefed on it. The only exception to that was what they called operational traffic in a privacy channel which the DDO or the DDO Division Chiefs would send out, and I would only get ahold of that if the DDO would tell me about it. And the routine I used was I would get in in the morning around 7:10 and I would go down to the DDO office and they would kind of give me a dump of what went on during the night from an operational standpoint.

Q So if there were privacy channel cables sent or received you wouldn't ordinarily see those unless you went down to the DDO and asked to see what was sent or received?

A That's right. And to me I think, parenthetically, that is a failure within the Agency.

Q Not to share privacy channel cables with the DDCI and the DCI?

A Yes. Not so much that. There is so much traffic that there's no way the DCI or DDCI can keep on top of everything going on, but what I recommended to Bob Gates as this thing began to unfold, that they assign the Inspector General to receive a copy of every piece of correspondence, no exception, in the Agency and have the Inspector General monitor what's going on. Because if you see a cable and then you don't see another one until next week, you lose that continuity of what was going on.

Q When the Director would have meetings with the National Security Advisor would you ordinarily go along to those meetings?

A I would go to the ones that we had scheduled on Thursdays. We usually had a meeting every Thursday around 5:00 or 6:00 with the National Security Advisor. We would have breakfast with the Secretary of Defense on Friday morning. We'd have lunch with the Secretary of State Friday afternoon.

In the last year or two, that was changed, when McFarlane decided to have what was called a family lunch, and he would get the two Secretaries, himself and Casey together, and at that point I would meet with, have lunch with, the Deputy Secretary of State, originally Ken Dam and then later John Whitehead.

Q So until the family luncheons started you would meet on a weekly basis with the DCI with the National Security Advisor and then separate meetings with the Secretary of Defense and Secretary of State?

A Right.

Q Once the family group meetings started you did not attend the family group meetings, and the people who attended those were the DCI, the National Security Advisor, the Secretary of State and the Secretary of Defense?

A Correct.

Q And the family group meetings were weekly meetings?

A Usually, yes.

Q And instead of attending those meetings you would have lunch with the Deputy Secretary of Defense, Mr. Dam?

A No. I always had breakfast with Cap and he would bring in Taft, and if Weinberger wasn't there, then Casey and I would meet with Taft. So we always met, in spite of the family group. We always met with the Secretary of Defense or his Deputy.

Q So you continued to meet with them once a week?

A Right. But I didn't meet then with Shultz, but instead would met with Ken Dam or John Whitehead, and they would usually have the Director of INR and Mike Armacost with them.

Q Was there a reason why you and the Director stopped meeting on a weekly basis with the Secretary of State?

A I think it was because McFarlane assessed that he had to get better communication between the three of them and he decided that that would be a good way of doing it, without having lower level people around.

Q Was there tension between the Director of Central Intelligence and the Secretary of State?

A Not tension. There was disagreement at times over different events, but it wasn't -- I don't think it was an inhibiting factor, and certainly not a constant gnaw. They used to play golf together and socialize together. There were certain policies that Casey didn't agree with, and, you know, he would argue with Shultz on them, but there was no hostility involved or anything of that nature.

Q Were briefing books prepared for your weekly meetings with the Secretary of State, Secretary of Defense, and the National Security Advisor?

A Yes.

Q And you and Casey would get the same briefing book?

A Yes.

Q Was a briefing book prepared for the family meetings?

A I don't recall. I can't speak to that, because I was interested in the one I was getting for my meeting.

Q When you attended these meetings would you ordinarily prepare a memorandum for the record or summary of what went on in the meeting?

A Yes. I tried to be religious in doing that.

Q Did the Director prepare any such memoranda for the record, as far as you know?

A I don't think so.

Q Did he customarily make notes at any of those meetings?

A Only if he was going to follow up on something, but he didn't make notes as to the entire conversation. What we'd do is literally go through those briefing books and just use them as talking aids, and if there was a particular paper on an intelligence situation we'd say, you know, here's an intelligence situation you ought to be aware of. And there was a good tie between all three books, so that we kind of made sure that the three principals were briefed on the same subject matter throughout.

Q There was somebody in the Central Intelligence Agency that had the responsibility of making sure that everyone was on the same line for meetings?

A Yes, that was Casey's special assistant, and later he wore the title as well as the Executive Secretary.

Q What kind of direct access to the President did Casey have when you were DDCI?

A I think he had the potential for direct access whenever he wanted it. He was usually very careful in making sure that the National Security Advisor knew what he was concerned with, and if he felt it important to go see the President he usually told the National Security

Advisor, and I guess sometimes he went with him, and sometimes he didn't.

But I don't think there were, you know, that many occasions where Casey felt he had to use that channel. He had certainly the potential of doing it.

Q If he felt he had to communicate directly with the President, how would he do it?

A He would usually go down to see him.

Q Did he ever call the President on the telephone?

A I believe he did, yes.

Q How frequently would that happen?

A I don't think that often.

Q Did he ever write letters to the President?

A Yes, if there was an issue that he felt strongly about he would write the President and tell him what he thought.

Q Would those letters go through the National Security Advisor or would they go directly to the President?

A I don't know, but knowing Casey I think he would make sure that the National Security Advisor was aware of that.

Q In general Casey tried to keep the National Security Advisor informed of what he was doing with the

President?

A Yes.

Q When did you first meet Colonel North?

A Gee, I don't know.

Q Did you know him before you became DDCI?

A The first time I met North was [redacted] in a JCS war game, and we were meeting down in the situation room, and we had, I think, [redacted]

Q Can you give me a year on that?

A I don't know whether it was '81 or '82.

Q Okay. During the time that you were DDCI did North frequently visit the Director at headquarters?

A No.

Q What kind of relationship did North have with the DCI? I'll tell you that his records reflect, the DCI's records reflect, a number of meetings with Colonel North and a number of phone conversations with him. Is that consistent with your understanding of their relationship?

A No, not at all. I can't imagine why Casey would bother talking with North when he could talk with anyone else he wanted to. That may have happened either after I left or when we were opted out of Central America and Ollie was trying to drum up all kinds of support there. But I can't -- I don't recall North being around the Agency very much.

Q The Director had an office in the Old Executive Office Building. How much time did he spend there?

A I think he used it any time he was in downtown Washington and had either a gap between meetings down there or if he was going to meet some outside visitor he would often meet him down there.

Q To your knowledge did the Director ever meet with Colonel North at the OEOB office?

A I would not know.

Q Do you know whether Colonel North would ever see the Director at his home?

A No, I have no idea of that.

Q Did the Director ever speak to you about Ollie North -- what he thought of him, what his relationship with North was?

A No.

Q So as far as you knew, the relationship wasn't particularly close and during the period of time you were DDCI he didn't have much contact with you?

A Well, I took objection to the newspaper reports which mentioned that North was working for Casey. That just blew my mind. I had no indication that that was the case whatsoever, and I don't think it's a fact. I think Casey's malady drew a lot of attention.

Q You mean because he's not able to --

A Unwarranted because he couldn't defend himself.

Q Because he can't defend himself, people are assuming that he had a closer relationship with North than he actually had?

A Right.

Q To your knowledge, he didn't have a particularly close relationship with Colonel North?

A No, he did not, not to my knowledge.

Q How important was the contra program to the Director? If you could list his top four or five priorities, would the contra program fit within the Director's top four or five priorities?

A By all means.

Q Where would you rank it?

A I would rank it probably number one, if not a close second [redacted]

Q How much time would you say the Director spent on the contra issue?

A A lot of time. He was very interested in what was going on down there on a day-to-day basis.

Q Because the Director had it as a high priority and spent considerable time on it, did you also spend time on the contra program?

A Well, I thought it was in good hands. I was knowledgeable of what was going on down there. I believed in the contra program, but I had great reservations whether or not CIA could prosecute it. I predicted that we were going to be legislated out of Central America a year and a half or two before it happened. I could just see the uneasiness welling up in

Congress, not so much that the need was there, but the fact that we were asking Congress to be a partner to a covert action that was only kept secret within CIA.

And the only one who put a secret stamp on it in conversation on contras was in CIA. It was just an open war and it had reached a dimension that I felt was just too much. In fact, I urged Casey to get the Agency out of it and turn it over to DOD because of the growing uneasiness in Congress. And it was that the Senators and Congressmen felt they couldn't look their constituents in the eye and go for this covert action program and try to sign up to something that is supposed to be secret when it is so public.

And if it was so important and everybody knew about it and the Congressmen were voting to give covert action funds, why didn't they give open funds and do it in an open fashion? And Casey finally agreed that I could talk to people about it and I talked to Bill Clark and said, you know, let's get DOD to take this over. It's reached a dimension that's too big for us and it's an embarrassment to the U.S. Government.

And Bill Clark said eventually, well, it's all right with me, if you can convince Shultz and Weinberger. I believe I mentioned it to Shultz, and I can't be sure of that, but I know I did mention it to Weinberger, and he just said no way. You know, he wasn't blind -- not with a ten-foot pole.

So, at any rate, we hung in there and, sure enough, down came the Boland Amendment and we were legislated out of it.

Q Who were the principal DO officers that Casey dealt with on the contra program during the period of time that you were DDCI?

A Dewey Clarridge and then [redacted] when Dewey --

Q Dewey Clarridge was [redacted] the Latin America Division, correct?

A Yes.

Q And [redacted] was Chief of the Central American Task Force. Why did Casey's principal officer on contras change from [redacted] the Latin America Division to the Chief of the Central American Task Force?

A It was because we all liked [redacted] He was a very sharp officer and I think a very precise guy, and I think we had a great deal of confidence in him. And when we made the whole move, we brought in [redacted] [redacted] to be Chief of Central America, and [redacted] being the guy that he was, I think he was the natural guy to run the program.

I think Dewey kind of assumed the role of [redacted] LA, but also Chief of the Central American Task Force.

Q Did Dewey Clarridge have frequently direct contact with the Director about the contra program?

A Yes.

Q How frequently would he be up there talking with the Director about it?

A Oh, I don't know, but I'm sure it was three or more times a week, and lots of telephone calls.

Q And later did [redacted] have similar contact with the Director?

A I don't know. I can't speak to that. I would say yes, but I think [redacted] was more prone to stay within channels than Dewey might be. So I would think [redacted] would, you know, talk to Clair George a lot easier than Dewey would talk to Clair George.

Q Let's talk about the period of time in 1984 when you realized that the funding for the contras was going to run out and not be renewed for some time. When did you first realize that?

A Well, as I said, a year and a half or two I knew it was coming, and there was a lot of iterations, a lot of signs coming out of Congress suggesting a growing uneasiness to do that. It was certainly before it happened I knew that, you know, it was going to happen,

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but I can't say when.

Q In view of the Director's commitment to the contra program, in view of your awareness, and that would have been certainly by the spring of 1984, that the U.S. Government money was going to run out, what efforts did you and the Director make to plan for how the contras could continue to be funded?

A The thrust of our activity was to get administrative support in Capitol Hill to turn that around. I felt we kind of dropped the ball in letting the Boland Amendment come in and take hold, that the Administration seemed to be content to let humanitarian assistance represent U.S. interest and hope that third countries would fill the vacuum.

My concern was twofold on that. I felt that we were letting Congress off easy. I felt that for the contras to be successful they had to have Congressional support. That was a given. And so I felt that there should have been more pressure placed on Capitol Hill to keep the contra program going.

Secondly, I thought it was a cop-out to rely on third countries and hope that they would provide support. But if the Administration let Congress get away with just giving military aid and if we were accepting the fact that that was the will and the intent of the

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Congress as a whole, then any third country that supported the contras Congress would soon learn about and they would put the squeeze on those countries by cutting off their foreign aid.

So all we were buying in letting the humanitarian assistance go through was maybe one year before the third countries would have to kowtow to pressure from Congress, just like the Administration was.

Q I understand that there were continuing efforts to turn the Congress around on this issue during the entire period of time that the Boland Amendment was in effect.

A Right.

Q But is it fair to say that by March or April of 1984 you realized that there was going to be a substantial period of time before Congress could be turned around on the issue?

A Yeah. Usually the only way to the board is through the authorization and appropriations, so you had to wait for that cycle.

Q So at the very least you knew there was going to be almost a year before new money could be voted.

A To get back to the board.

Q And you also knew that the contras were being funded almost entirely by United States Government funds;

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correct?

A Correct.

Q What planning went on at the CIA during the winter-spring of 1984 as to how the contras could continue to exist during that period of time when you knew there wouldn't be any U.S. Government funding?

A The whole planning that I was exposed to focused on lobbying Congress and bringing pressure to bear on Congress to turn itself around, and I know of no plan for anyone in the Agency or any effort on the Agency to get support out of other countries to replace the Boland or substitute for the Boland thing.

Now the Boland Amendment didn't hit till the fall of '84, I think.

Q Right. I'm going to show you a document in a second, but during the March-April 1984 time frame you are not aware of any efforts within the CIA to determine whether we could get some third countries to provide the support that the U.S. Government could no longer provide?

A Oh, there was efforts to get them to help out, but at that time period it was quite legal and permissible to do so. Originally we had hoped that [redacted] [redacted] might play a role there, but they had done so in the initial periods of the contra program and pulled out. But I'm privy to this exchange of cables [redacted]

[redacted]

Q I want to get into that in a minute, but I want to show you another document first, and why don't I do that now? If we could mark this as McMahon Exhibit 1 and just for the record it's a 27 March 1984 memorandum for Robert McFarlane from the DCI regarding assistance to the Nicaraguan program.

(The document referred to was marked McMahon Exhibit Number 1 for identification.)

Mr. McMahon, let me just make one more identifying reference to this exhibit. The Committee number is C-7490, and the CIA number is CIIN 3077.

Please take a look at that.

(Pause.)

A All right.

Q Have you seen that document before, Mr. McMahon?

A I can't recall. I notice that is a time when I was traveling, so I may not have seen it.

Q The document speaks in general terms about how the contras could be supported, and it discusses several different alternatives. I'd like to go over those alternatives with you.

One alternative mentioned is the possibility

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of going to [redacted] to obtain assistance for the contras. What do you know about that?

A I don't know much, but I think it's a non-starter, [redacted]

Q In the memorandum Director Casey says to Mr. McFarlane: "I am in full agreement that you should explore funding alternatives [redacted] Were you aware that the Director and Mr. McFarlane were having discussions about going to [redacted] to obtain funds for the contras?

A Not that I can recall. [redacted]

Q This was not something that was discussed at your weekly meetings with the Director and Mr. McFarlane as far as you can recall?

A Not that I can recall, but if it did chances are -- if we did discuss it, chances are it's in my memoranda.

Q Do you know whether [redacted] ever did give or provide any funding to the contras?

A I suspected they did, but I had no firsthand knowledge.

Q What led you to suspect that they did?

A Well, when the Boland Amendment came down I wondered what countries could possibly help out, and I figured that [redacted] and [redacted]

Q Why did you pick those countries as possible donors?

A Because they, I think, were well disposed towards the Administration and wanted to help the Administration.

Q Are they also countries that might have something to gain from the Administration by supporting a program like this?

A By all means.

Q The memorandum says, in the third paragraph: "The second alternative we" -- meaning the CIA -- "are exploring is the procurement of assistance from [redacted] [redacted] I've also shown you before the deposition a series of cables which we'll get into in a moment about that approach, but can you tell me from where did the idea come to go to [redacted] to obtain aid for the contras?

A I don't know. It's conceivable that when the Agency learned that [redacted] But I don't know who really originated it.

Q You don't know, but you would think that Clarridge might have been the person?

A Right.

Q The final alternative mentioned is in paragraph four and says: "Finally, after examining legalities you might consider" -- and I can't read one of the words -- "appropriate private U.S. citizen to establish a foundation that can be a recipient of non-government funds which could be dispersed to the FDN."

Did you ever discuss during this time period with Director Casey the possibility of finding private citizens to establish a foundation which could receive non-government funds to support the FDN?

A No. And, knowing my contacts in the United States, they don't have money to do that.

Q Casey never talked to you, though, about that as a possible way of supporting the contras?

A No, I don't think he did.

Q Do you know where he came up with this idea that is mentioned in paragraph four of the memorandum?

A It could be his fertile mind, because he is always thinking of ways of figuring things out. And, of course, he knows the entire power and financial structure in the United States.

Q It was never something he discussed with you, however?

A No. I'm sure from his fundraising days for the Republican Party he had a pretty good fix on what people are prepared to help.

Q Let me mark as McMahon Exhibit 2 the series of cables concerning the attempt or the discussion about obtaining aid from [redacted] for the record, these cables run by the Committee numbers C-8933 through C-8945, and they run CIIN numbers 3871 through 3883.

(The document referred to was marked McMahon Exhibit Number 2 for identification.)

Mr. McMahon, these are the cables that I showed you before the deposition, correct?

A Right.

Q And in general terms they describe a proposed trip, which did take place, where [redacted] [redacted] went [redacted] to discuss the possibility of obtaining aid [redacted] for the contras. However, although the trip took place, the actual attempt to solicit the aid did not take place. Is that a fair summary?

A That's my recollection of it. I think we turned him off of that.

Q Do you know how it happened that [redacted] [redacted] came to go to [redacted]

A I don't know, you know, how that was spawned, but from looking at this it's obvious that he went over to discuss getting access [redacted] [redacted] to use for the contra program.

Q Did Director Casey ever discuss this possibility with you of obtaining aid from [redacted]

A Not in the beginning. I think from here it notes that they caught up to me with this idea during a trip.

Q Weren't you making a trip to [redacted] around that time?

A I was making a trip [redacted]

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[redacted] And when I was asked to do this, I said all right, since I'm over there I will go [redacted]

Q Who asked you to go to [redacted]

A Me.

Q You decided on your own?

A Right.

Q And what were you going to go [redacted] to do?

A Just to touch base with [redacted] But the purpose of the trip [redacted]

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[redacted]

Q Let me interrupt for a second. When you went to [redacted] did you have any intention of discussing the possibility of [redacted] giving either money or materiel to the contras?

A Not when I left, but I guess I got a cable to do that.

Q Who sent you that cable -- and if you need to take a moment to go through them, please.

A I guess the cable was sent out by -- it was sent out by Dewey Clarridge, saying that he had a meeting with the DCI on 23 March on the Nicaraguan project and he suggested that Dewey send the cable to me and have me raise it with [redacted] when I got over there.

Q What was your response?

A I didn't respond, that I recall.

Q Did you raise it with [redacted] [redacted]

A I don't think so [redacted] And, therefore, I don't think it was raised.

Q Did you have some reluctance about raising that issue?

A Yes. I didn't think it was a good idea.

Q Why not?

A Because we had enough problems with Congress on the Nicaraguan program [redacted]

Q Apart from the problems ~~with Congress~~ are there any policy reasons why you thought it might not be a good idea to solicit aid [redacted] for the contras?

A No.

Q When did you learn that [redacted] [redacted] Dewey Clarridge, was planning to make a trip [redacted] to ask for aid for the contras?

A Well, I think after I came back he was preparing to go.

Q Do you know whether that trip had any other purpose other than to try to obtain aid for the contras?

A I can't say.

Q Did you have any discussions with Mr. Clarridge about the trip before he left?

A Yes. [redacted]

Q

A

Q Had a decision been made by the time Mr. Clarridge left as to whether he was going to ask for aid for the contras?

A Yeah. I think that was turned off. I think we knocked that off.

Q So you are saying that you think by the time he left the decision had already been made for him not to ask for aid to the contras?

A I believe that's the case, yes.

Q Okay. Let me try to go over this with you. In one of the cables, Committee number C-8947, it's a cable dated 10 April '84, and if I can read this correctly it's to IMMEDIATE [redacted] and it says: Subject [redacted] Discussions with [redacted] DDCI advises that there are some second thoughts around town as to wisdom of involving [redacted] in already complicated Central American equation. Request you hold off on this aspect of your discussions until we can get definitive word to you.

Let me show you that cable. Can you tell me who this cable is being sent to?

A It's being sent to [redacted] and is being sent out by [redacted] who at the time was [redacted]

Q The cryptonym [redacted] that refers to a [redacted]

A Yes [redacted]

Q What this message says basically is don't do anything to pursue the Central American issue until we can give you a definitive answer on what to do; is that right?

A Right.

Q The next cable in sequence, C-8948, is to headquarters from [redacted] and it notes that [redacted] arrives 13 April [redacted] Have I read that right? Is that describing the arrival of Dewey Clarridge in [redacted]

A That is correct.

Q And at the time of his arrival the decision on what to do on aid to the contras is still unresolved; isn't that right?

A That's right.

Q In fact, if the decision had been resolved [redacted] wouldn't you have sent somebody other than [redacted]

A Right. When he went out, though, he had instructions not to raise it. That was an issue that we weren't going to put forth with [redacted]

Q Well, if you weren't going to raise that, wouldn't you have sent someone other than [redacted]

A I can't answer why he went. There may have been another reason that I don't know.

Q Well, let me then refer to the next cable I have in sequence. It's a cable C-8949, dated 1 May 84, to headquarters from [redacted] It says: "Any word to pass [redacted] on recent reference discussions. Have been able by avoidance of personal meting to delay response to date, but local circumstances now dictate need to see [redacted] soonest. If no decision yet reached, will temporize accordingly."

Do you know what he is referring to?

A No. I can't really answer that.

Q Isn't he referring to the decision on whether to ask for aid for the contra program?

A That would seem logical, in light of what went on before.

Q So isn't it the case that as of 1 May the decision on whether to solicit aid for the contra program had not yet been made?

A That's possible, yes.

Q And finally let me show you the cable C-8945. It is a cable from [redacted] to [redacted] [redacted] and isn't it in this cable when the final decision is communicated to [redacted] [redacted] that the -- strike that. Let me try to do it better.

Isn't it in this cable that the final decision is made on whether to solicit aid from [redacted] for the contras?

A Yes. That would be a logical conclusion.

MR. LEON: What's the date on that, Paul?

MR. BARBADORO: It's dated 1 May 84.

BY MR. BARBADORO: (Resuming)

Q But it's your testimony that when Dewey Clarridge went to [redacted] he was under instructions not to raise the possibility of obtaining aid [redacted]

A Yes.

Q Who gave him those instructions?

A Well, I think I was involved in that [redacted]

Q [redacted]

A [redacted]

Q [redacted]

A [redacted]

Q [redacted]

A [redacted]

Q I want to pursue this issue of third country funding with you a little bit further and I want to show you a memorandum for the record from General Counsel Sporkin, dated June 26, '84, and let's mark that as

McMahon Exhibit 3. It's C-7808 and CIA number 3098.

(The document referred to was marked McMahon Exhibit Number 3 for identification.)

Please take a look at that, Mr. McMahon.

(Pause.)

I don't imagine that -- well, you are on the distribution list for this memo. Do you recall getting it?

A The subject matter is certainly familiar with me.

Q Do you remember an NSPG meeting where the possibility of aid, soliciting aid from third countries, was discussed.

A No, I can't recall that, although it's not beyond the realm of consideration.

Q Did you ordinarily attend NSPG meetings?

A Either the Director or I. Infrequently both of us did. But usually it would be one or the other.

Q In this memorandum, which is dated June 26, it says: "The DCI explained that funds to support the current Nicaragua program were running out and that he wanted to discuss the legal limits of the options available to the government. The DCI mentioned that he was at a recent NSPG meeting where he had been requested to discuss the matter informally with the Attorney General. The DCI said one proposal being considered involved other nations in the region providing aid to the Nicaraguan contras."

It's your testimony that you can't recall an NSPG meeting where that was discussed but that it's possible that there was one?

A Yes.

Q Do you recall any discussions with the DCI during this period, June of 1984, about the possibility of obtaining funds from third countries?

A No. No, I can't recall any.

Q Do you recall the DCI mentioning that he had been asked to discuss the possibility of third country funding informally with the Attorney General?

A No.

Q Do you know whether any discussions like that took place?

A No, but it wouldn't surprise me. But I think it's beautiful evidence that Casey was trying to follow the law.

MR. BARBADORO: Let's go off the record a second.

(A discussion was held off the record.)

MR. BARBADORO: Back on the record.

BY MR. BARBADORO: (Resuming)

Q The memorandum states that "after discussion the Attorney General stated that he saw no legal concern if the United States Government discussed this matter with other nations, so long as it was made clear that they would be using their own funds to support the contras and no U.S. appropriated funds would be used for this purpose."

During June of '84 was it your understanding that the law would have allowed you or other government officials to approach third countries to obtain aid?

A Definitely. As far as I was concerned, that paragraph -- and I'm not a lawyer, with all modesty -- that paragraph would be applicable up to the time of the Boland Amendment, but once the Boland Amendment was in then we really couldn't play that role because the Agency under our ground rules can never ask someone to undertake an action that it can't legally do itself.

In other words, if we seek a surrogate, we must have the same authorization of what we want the surrogate to do.

Q As we go down the memo, it says: The Attorney General also said that any nation agreeing to supply aid could not look to the United States to repay that commitment in the future. I want to ask you a policy question here in relation to that. Is it a concern as a policy matter when the United States tries to seek aid from third countries for covert programs that those countries might expect something from the United States in the future?

A I don't think it's a quid pro quo. I think that you have to look to the overall general relationship between the countries. They obviously will do something to curry our favor, but it may not be anything specific at the time. They just want to stay in good terms, much as they would vote favorably for us at the U.N., knowing that that kind of incurs a debt of unspecificity in the future.

Q As a policy matter, though, does it concern you that there might be the possibility that if we asked [redacted] to give us aid for one of our covert programs that [redacted] would expect us to then provide them with [redacted] or something like that in the future?

A I don't think you can drive it to a specific return. I think you have to look upon it that are you our friends and, if so, why don't you help us out because we need help, because I don't think it's a one-for-one.

Q Do you think as a policy matter that the Congress, which is going to vote aid, foreign aid, for third countries should be informed of solicitations to those third countries for assistance in our covert programs?

A If CIA were doing that, I think we would inform them. In fact, it is my understanding that we usually do that. In fact, we have come upon a phrase in our covert action Findings, where we say "through third parties or third countries", whatever, and Congress says well, who are you going to use, and we usually tell them.

Q This memo is dated June 1984. In July 1984 Adolfo Calero received his first $1 million deposit from a country that Robert McFarlane has identified as [redacted] During June of 1984 did you know of any attempts by anyone in the United States Government to obtain aid for the contra program from [redacted]

A No, I did not.

Q When did you first learn of the possibility that [redacted] had provided aid to the contras?

A When I read it in the newspaper. I suspected it, but I never had any firsthand knowledge.

Q Okay.

MR. LEON: Were you surprised that the Director would keep that from you?

THE WITNESS: Keep that from me?

MR. LEON: If he knew it.

THE WITNESS: Yes, I would be surprised. I think Casey did not want to know because when we would come to Congress and we'd get around to this subject he'd often be asked well, who's helping out the contras. And I didn't want to know, and neither did Casey, because we would feel obliged then to tell Congress. Now we felt Congress would put the squeeze on those countries.

BY MR. BARBADORO: (Resuming)

Q By June of '84 did you know that Ollie North was the principal action officer for the contra program within the NSC?

A No.

Q Who did you think over at the NSC staff had principal responsibility for the contra program at that time?

A Well, I guess it would have to be Ollie, but, you know, I had never heard Ollie designated as that.

Q And you had no knowledge in June of 1984 that Ollie North had played any role in trying to obtain aid from any third country for the contras?

A No, I don't recall any of that.

Q And you had no knowledge of any discussions between the Director of Central Intelligence and either Robert McFarlane or Colonel North about the possibility of people on the NSC staff trying to obtain aid from third countries for the contras?

A No, other than the correspondence that you showed me.

Q Was it a conscious decision on your part not to know, not to seek to know about where the money was coming from for the contras?

A Definitely.

Q And could you explain why that was?

A Because if I was testifying on any given subject in Congress and the question was asked, I would tell them. And we operate, as any true intelligence officer knows, on a need to know, and when funds were cut off it was not my need to know where they were coming from, and I just wanted to stay away from it.

Q It was your understanding once the Boland Amendment was passed that no CIA official could be involved in soliciting aid from third countries; correct?

A Definitely, and we sent instructions to everyone to make sure that was the case.

Q And to your knowledge were any CIA officials, including the Director, involved in any way during the period of the Boland Amendment in trying to obtain funds from third countries for the contras?

A None that I am aware of.

Q You said you didn't know about the money coming from [redacted] for the contras until you read about it in the papers recently, but you said you suspected. I want to show you a document bearing the Committee numbers C-2707 through 2716 and bearing the CIA number CIIN 1323. And it concerns a meeting with the Secretary and Deputy Secretary of Defense, 15 March 85. Could we mark that as McMahon Exhibit 4?

(The document referred to was marked McMahon Exhibit Number 4 for identification.)

Please take a look at this, and feel free to read the whole thing. However, I intend to question you only about the part that's highlighted.

(Pause.)

Mr. McMahon, this exhibit concerns a meeting that you and Director Casey had with Secretary Weinberger and his Deputy on March 15, 1985; correct?

A Right.

Q And part of this document is the summary that you prepared of that meeting?

A Yes.

Q Under paragraph seven there's a discussion about support for the contras. In that paragraph it says: In closing, the Secretary stated that he had heard that [redacted] had earmarked

$25 million for the contras in $5 million increments.

Do you remember that meeting where Secretary Weinberger mentioned that he had heard that [redacted] had earmarked $25 million for the contras?

A Yes.

Q What did he say in that meeting?

A Exactly what you said. It was like an offhand remark. In fact, he said it, if I'm not mistaken, when we were getting up to leave and we had discussed, you know, what can we do to get Congress to address this problem of aid to the contras and get off the non-lethal kick. And as we were breaking up -- and, as you can see, it is the last item in the note -- he said I've heard that [redacted] So it's kind of in the hearsay context, and that was the extent of his comment.

Q He didn't say anything else about how he had learned, for example, about [redacted]

A No, not that I recall.

Q And he didn't say anything, as far as you can recall, about how the money had been obtained, who was involved in the solicitation?

A None whatsoever.

Q Did Director Casey say anything when Secretary Weinberger made this statement?

A No.

Q Afterwards did you ask Director Casey if he knew anything about this solicitation -- excuse me, this assistance?

A No.

Q Can you explain to me why you wouldn't have said anything to Director Casey about this?

A Probably because, as I go back to the original thing, I really didn't want to know what anyone else was doing to the contras.

[redacted]

Q As far as you knew, however, no one in CIA was involved at any time in approaching [redacted] to obtain aid for the contras?

A No, that I am aware of. [redacted]

Q Director Casey [redacted] at various times, didn't he?

A Yes.

Q To your knowledge did he ever raise the contra issue with [redacted]

A Not that I'm aware of.

[redacted]

[redacted]

Q Is it fair to say that you briefed Congress several times or you were present at Congressional briefings on the issue of the contras several times during '85 and '86?

A Yes. In fact, I was the one who went down to try and convince Congress to roll over the Boland Amendment by starting up the $100 million program, and that was done through the intelligence authorization process which began in January-March time period in '86. But you may recall Congress began to turn themselves around in the tail end of '85. They gave us $3 million for the contras to give them communications equipment and then in the authorization process we came back with a pitch for $100 million, which was eventually approved.

Q During your briefings to Congress you were, on at least one occasion, probably more than one occasion, asked where the contras were getting their money from, right?

A Yes.

Q And you told them you didn't know because you didn't know?

A Right.

Q Did you ever tell them you suspected money was coming from [redacted]

A I believe so, yes -- [redacted]

Q Did you ever learn -- you mentioned that you didn't have any knowledge other than what we have just discussed of money coming from [redacted] Did you ever receive any information that the governments of either [redacted] had been approached by any U.S. Government official to obtain aid?

A No.

Q And apart from what you may have read in the papers do you have any information that they did, either of those governments did actually give money to the contras?

A No, I do not.

MR. BARBADORO: I think this may be a good time to break for lunch. Why don't we do that and reconvene after you have had something to eat?

(Whereupon, at 12:30 p.m., the taking of the instant deposition recessed, to reconvene at 1:15 p.m. the same day.)

AFTERNOON SESSION

(1:15 p.m.)

Whereupon,

JOHN N. McMAHON,

the witness herein, having been previously duly sworn, was further examined and testified as follows:

EXAMINATION - Resumed

BY MR. BARBADORO:

Q Mr. McMahon, let's just finish up with the contras and then move on to other areas. If you've been following our hearings at all or if you have read the Tower Report or any of the press reports on this matter you know that in early 1986 a contra resupply operation was commenced operating out of [redacted] and supplying the southern front forces in southern Nicaragua but also the FDN forces.

Are you familiar in general terms with the reporting that's occurred on that resupply operation?

A I can't say that I am.

Q You haven't been following it that closely?

A No. You mean the Hasenfus caper?

Q That's right. What knowledge did you have back in early 1986 before you left the Agency about how the contras were being supplied?

A I had none.

Q Did you have any idea about how the southern front forces were getting their military supplies?

A No. I suspected air and possibly by boat.

Q Had you heard that there were private Americans, private patriotic Americans, private benefactors, Project Democracy -- any name you want to call it -- that there was a group of American citizens that were involved in an effort to resupply the contras?

A I know that Americans were, with no reference to any particular name or organization. But I know that there were a lot of people in the U.S. that were concerned about the contras and wanted to help, and there was a number of speeches made. I think Ollie North was a principal speechmaker in trying to drum up interest in the contra situation.

But who was doing the supplying and how it was carried out, I don't know.

Q You had no knowledge while you were at the Agency about any resupply operation based at [redacted] [redacted]

A No, other than that conducted by CIA when it was legal.

Q And you had no knowledge about Ollie North's direct involvement in any such resupply operation?

A No.

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Q Did you know that Richard Secord was in any way involved in supplying the contras, either in selling arms to them or in running any resupply operation?

A No. I didn't hear Secord's name involved until the Iran situation back in November, I guess it was.

Q Director Casey met with Mr. Secord, by Mr. Secord's testimony, I believe in November of '85 and February of 1986. Do you remember the Director meeting with Mr. Secord?

A No. I was unaware of that meeting.

Q And the Director never said anything to you about his meetings with Mr. Secord?

A Not that I recall.

Q The Director also met with General Singlaub at around that time. Did he ever tell you he was meeting with General Singlaub?

A No. I never heard of that until I read it.

Q Did you know about the construction of the air strip [redacted]

A No, I didn't. That was quite a surprise to me.

Q When did you find out that there was an air strip?

A In the process of this hearing.

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Q Do you know [redacted]

A No, I don't believe I do.

Q Wasn't he Director Casey's special assistant?

A Oh, yes, yes. Okay.

Q He was the Director's special assistant, and I'm sorry I can't give you the starting date, but until about the end of the year 1985, maybe into the first couple of weeks of 1986. Does that sound right to you?

A That's about right.

Q We believe he started about September of '85 and was special assistant until about December or January of '86.

A Right. You said '86. I don't think he was there. I thought he left before I left.

Q Well, you left in --

A March '86.

Q What I meant was December '85-January '86 is around the time he left; is that right?

A Yes, right.

Q [redacted] has told us that he left because he wanted to go and try to raise money for the contras from private sources. Did you have any knowledge that that was why [redacted] was leaving the Agency?

A No, not raising money so much, but I felt he left for a two-fold purpose. One, he was personally upset that the U. S. Government was not carrying out a program to support the contras, and that really bothered him. And he left to help out the contras. And I think in fact Casey even attempted to discourage him from doing that because I think Casey was pleased with what he was doing for him.

But [redacted] conviction, as far as I was concerned, was that the U.S. Government wasn't doing what they should and he was going to go out and see what he could do to help out.

Q Did he ever discuss with you exactly what he was going to do?

A No.

Q So you had no idea as to how he planned to help out the contras?

A No. In fact, the only conversation I had about his departure was a stand-up conversation in a doorway.

Q What did he say to you there?

A He just said I want to help the contras and we can't do it working here at CIA.

Q Did the Director ever tell you how [redacted] planned to help out with the contras?

A No.

Q Let's move on to a different topic, after spending three hours discussing the contras. I'd like to show you a document which has been introduced into evidence at our hearings in redacted form. It is our numbers N-7417 through N-7422 and it is a memorandum dated June 7, 1985, for Robert McFarlane from Oliver North regarding Status of Hostage Recovery Efforts.

If we could have that marked as McMahon 5.

(The document referred to was marked McMahon Exhibit Number 5 for identification.)

I can maybe direct your attention to the parts of it that I am going to ask you about. I'm going to ask you about the part headed DEA Operation on the second page, running through page four. You might just take a look at that part of it.

(Pause.)

Mr. McMahon, the portion of Exhibit 5 that I showed you describes an operation involving DEA agents and certain DEA contacts in Lebanon which would be used to help gain the release of the hostages in Lebanon. Did you in 1985 have any knowledge of an operation that involved the use of DEA agents to gain the release of the hostages?

A No, I don't. In fact, that's quite a surprise.

Q The operation described here talks about an effort to bribe, pay bribes to people to gain the release of the hostages. It talks about payments of $1 million per hostage. It talks about $200,000 being paid up front and involves the use of the DEA agents and their contacts in Lebanon. Is it your testimony that you knew absolutely nothing about this operation?

A That's correct. In fact, it ran contrary to the Agency's policy on trying to get the hostages released. We were constrained to provide funds only for intelligence collection, and the policy was then existent in the U.S. Government at that time that we would not provide bribes or ransom to seek release of the hostages.

Q In your opinion, if this operation that is described here had been conducted by the Central Intelligence Agency, would it have required a Finding?

A Definitely. Or else a recant by the President or Secretary of State of the policy not to provide ransom.

Q The operation described here is directly contrary to what the Administration's policy was?

A The way I read it, it is.

Q If you had been made aware of an operation such as the one described here, would you have been supportive of it?

A No, because I think that, as harsh as it may sound, I think the policy of not paying ransom is a valid one because the experience that U.S. business suffered in Central America showed that ransom doesn't pay, that when the local terrorist groups -- call them what you will; we call them terrorist groups now -- would run out of funds they would kidnap the nearest U.S. businessman, get a ransom and then they'd fill their coffers for a year.

When they needed more, they would ransom another one. So that policy doesn't work, and I think the policy we had was the proper one.

MR. EGGLESTON: Mr. Barbadoro just asked you if this activity had been undertaken by the CIA whether a Finding would have been required, and you answered yes, unless the policy had been recanted. I wasn't sure how those two halves fit together.

THE WITNESS: You are correct in correcting me on that. A change of policy does not require a Finding, but if CIA were involved in the passage of funds that would be for other than the collection of intelligence, therefore we would need a policy to use CIA funds to pay ransom. Thank you for the correction.

BY MR. BARBADORO: (Resuming)

Q Are you aware of an effort that was made in the early months of 1985 to collect intelligence

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information on [redacted]

A Yes. We went down every blind alley we could find.

Q Do you recall whether any DEA agents were involved in obtaining that information?

A No. The whole DEA angle is new to me. I just don't recall that at all and I would find that very much out of character in Lebanon.

[redacted]

Q When did you first become aware of the possibility that the government of Israel was selling U.S. arms to Iran?

A Selling is the wrong word, and I'm not sure that I can say that. Let me explain. [redacted]

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[redacted]

The whole thing fell dead there, but that gave me an awareness that the Israelis were up to something. And then a year or two later, as chance would have it, one of our officers told me that the Israelis must be fooling around with Iran because they contacted [redacted] to see if they would carry some cargo to Iran.

Q The Israeli government contacted [redacted]

A Some Israelis. Whether it was the government or not, I don't know. But [redacted] turned it down. I said, well, that's a good thing because we wouldn't do that anyway. But that gave me still an awareness that the Israelis were up to something.

Then I guess the next reference I had to Israeli involvement was in November of '85, and McFarlane and I had been -- the Director and I had been at our Thursday meeting with McFarlane, and we broke up and I walked out the door first. And Bud called the Director back and said something to the Director, and I was talking then to the secretaries out front. And when we were in the car driving back he said, did you hear what Bud said to me? And I said no. And he said that the Israelis either had or were proposing to, I thought he said, give arms to the Iranians.

I don't know if he used the term sell or not. I forget exactly.

Q That was on November 14?

A Yes, that would be in the right time period.

Q I want to get into that in a minute, but I have a few things I want to ask you about before that. When did you first hear the name Manucher Ghorbanifar?

A Well, I guess the best time I can refer to that is when the NSC was dealing with or attempting to set up an arrangement with the Iranians, and Poindexter was the principal person at the time, I believe, so that would have been --

Q This was after the November 14?

A That was after the November thing.

Q You'd never heard Ghorbanifar's name mentioned in any way prior to that?

A I don't recall it. Chances are I did, because he's kind of a ne'er do well and had been in and out of CIA burn lists. But I had no association with Iran dealings on anything until after that arms shipment. I think it was the first part of '86 that I came upon it.

Q The reason I ask you is that from CIA documents that we have reviewed it appears that Mr. Ghorbanifar was involved in an earlier approach to obtain U.S. arms that involved the CIA in the summer of 1985, and a person named Cyrus Hashemi. Does that ring a bell with you at all?

A The name Hashemi rings a bell, if it's the two brothers. There are two brothers involved, I think the Hashemi brothers.

(A discussion was held off the record.)

MR. BARBADORO: Let's go back on the record.

BY MR. BARBADORO: (Resuming)

Q Is it fair to say, Mr. McMahon, that you have no recollection of any approach that was made to the CIA by Mr. Ghorbanifar and Mr. Hashemi in the summer of 1985 to sell or to obtain U.S. arms for Iran?

A Not that I can recall.

Q Earlier in your testimony you mentioned that [redacted] was approached by Israelis to carry something to Iran and that [redacted] turned them down. Why was that?

A I don't know. It was a fait accompli when word got to me. I don't know whether it was a scheduling problem or what.

Q If you had been approached about possibly having [redacted] used to ship things from Israel to Iran, would you have approved the use of [redacted] for that purpose?

A No, because we had an embargo on things going to Iran.

Q Our records show that [redacted] carried gunpowder and detonators to Iran on 12 August '85, I believe. Do you know anything about that?

A No.

Q Would you have approved of it?

A No.

Q Would that have required a Finding, in your view?

A Definitely.

Q Ordinarily in your job as Deputy Director of Central Intelligence would you receive [redacted] that was coming to the Agency?

A Not all. Certain stuff. Usually [redacted] would flag [redacted] to me that they wanted me to see, so it would be addressed to John McMahon.

Q Can you give me an idea of the kind of volume of [redacted] you would get on any given day? I mean, would there be two or three operations that you would be

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getting [redacted] for, or would it be --

A It would be once a month.

Q That you would receive something from [redacted]

A Yeah, maybe something like that.

Q In September of 1985 Charlie Allen was tasked by Ollie North to begin collecting [redacted] on a person named [redacted] and a person named [redacted] and [redacted] began [redacted] showing it to Charlie Allen, and copies of [redacted] were sent to Director Casey and to you, among others. Do you recall getting that [redacted]

A Well, as I said, [redacted] [redacted] would probably go to my assistant and she would tell me about it. Occasionally I would read one.

Q Do you recall being told about that [redacted] [redacted]

A Indeed. In fact, if I'm not mistaken, the purpose of this was that the NSC was trying to develop access to the hostages and they were working this, they were working a number of avenues to achieve that. [redacted]

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You must remember that the context of this whole Iran operation was really the frustration which the NSC had over CIA's ability to rescue the hostages or provide good intelligence about it. And the government used every channel they could. [redacted] And I think in the frustration of not having good information on the hostages the NSC decided to try and work their own contacts.

Q Is it fair to say that in September of 1985 that you were aware that the NSC had an effort to obtain information about the hostages and that that effort involved [redacted]

A I believe -- I'm not sure of the date, but I'd have to say yes in the general context I was aware of that tasking.

Q How closely were you reading [redacted] when it came in?

A Not very closely.

Q Did you ever obtain briefings from Charlie Allen about what was going on?

A Usually that was my source of information. He would come in periodically and tell me what was going on.

Q How frequently would he come in?

A Oh, I don't know -- once every week or so. My calendar would demonstrate that.

Q I'll represent to you that I have reviewed that [redacted] and if you need it I have summaries of it.

A I don't think I need

Q

Do you recall either by [redacted] or by discussions with Charlie Allen that there was an effort involving these people to obtain the release of U.S. hostages in exchange for U.S. weapons?

A Not specifically. I would say that the effort was to get the U.S. hostages. What means or how those means would be employed I wasn't that sure of.

Q Do you recall any discussion with Mr. Allen about the fact that they were [redacted]

[redacted]

A No, not the U.S. My context was through the Israelis, not the U.S. doing it.

Q So you thought the Israelis may be trading U.S. weapons?

A I thought the whole thrust was the Israelis were up front doing this in behalf of the U.S.

Q And what this was, you thought, was that trading U.S. weapons for these hostages?

A Or weapons that the Israelis had, yes. To me. it was a weapons-for-hostage deal.

Q And from [redacted] discussing with Mr. Allen in September and October of 1985 you knew that this effort involved Israel trading arms in exchange for hostages?

A I can't say it's that crisp, but obviously there was a lot of dealings going on.

Q And it involved arms and it involved hostages?

A It involved arms and hostages. Hostages were foremost. What was involved to do that I'm not that clear on.

Q And did you also know that this was an NSC initiative?

A No. I felt that it was an Israeli initiative.

Q Did you know that the NSC was aware of and monitoring the Israeli initiative?

A Yes.

Q You must have, because North was the one that had asked Allen to [redacted]

A Right.

Q Did you discuss this initiative with Director Casey in September and October of 1985?

A Not that specific initiative. I think I discussed the whole issue of the hostage situation and I was uneasy with the arms-for-hostage connotation of it. But if the Israelis were prepared to do that, and if the President was prepared to let the Israelis do it, then that was fine by me, as long as we weren't involved.

Q Did you know in September or October that the President was prepared to let the Israelis trade arms for hostages?

A No.

Q Did you assume that because you knew the NSC was aware of the fact that it was going on?

A Yes.

Q Benjamin Weir was released on September 15, 1985. Did you have any idea at that time what had prompted his release?

A No. In fact, I felt that maybe one of the arrangements had come to fruition, but I wasn't sure. No one had ever said that this was a successful release and if you looked at Benjamin Weir's statements after he came out, I would say they were more beneficial to the Iranians than they were to the U.S. or the Israelis because he was very critical of the U.S. and Israeli relationship. So if Benjamin Weir was sought for, he was the wrong guy to get out.

But I was not specifically aware of a cause and effect.

Q Did Mr. Allen in his briefings ever attribute Mr. Weir's release to this effort involving Israeli shipments of arms to Iran?

A Not that I recall.

Q Could we mark as McMahon 6 a copy of the proposed testimony of the DCI before the House Appropriations Committee dated 8 December 1986, Committee numbers C-5832 through 5849, and CIA number CIIN 2226A?

(The document referred to was marked McMahon Exhibit Number 6 for identification.)

Mr. McMahon, I just want to show you one paragraph here that maybe you can clarify for me and maybe it's just as easy to read it. This is the Director's proposed testimony, which he never gave because of the problem with the brain tumor. He wasn't able to appear.

On the second page in the last paragraph on the page, it says: In the early fall of 1985 Bud McFarlane, after one of the weekly meetings which he and his deputy had with me and my deputy, asked me to stay behind. He told me about discussions he had had at the highest levels in Israel urging the desirability of discussions with officials in Iran and offering channels of access. He told me that for obvious reasons only a handful of people in the Israeli and American governments were told about this effort. I distinctly recall McFarlane emphasizing that the purpose of such discussions would be the future relationship with Iran and Iran's great importance in the east-west-Middle-East-Persian Gulf equation.

Were you present at any meeting in the early fall of 1985 with Bud McFarlane when this issue was discussed?

A The Director was possibly making reference to that meeting that we had on November 14 when he stayed afterwards with Bud and then the Director mentioned in the car what was going on.

Q It says the early fall, but the only meeting you can recall is November 14, '85; correct?

A Yes.

Q Let me mark as McMahon 7 a series of documents concerning a 19 September 85 meeting with Robert McFarlane, Committee numbers C-2309 through 2329, CIIN number 1294.

(The document referred to was marked McMahon Exhibit Number 7 for identification.)

I only want to ask you about the first page of the memorandum for the record dated September 23, 1985, if you would take a look at that.

(Pause.)

What I've just shown you is a memorandum you prepared; correct?

A Yes.

Q And it's of a meeting that occurred on 19 September 1985 with you, the Director, and Mr. McFarlane; is that right?

A Yes.

Q In paragraph three of that memorandum you describe a reference that Mr. McFarlane made in which he said that he had heard reports that Benjamin Weir had been released because the U.S. had agreed at least indirectly to provide weapons to Iran or at least to wink at arms transferred from Israel or other countries to Iran.

He said he hated to do it, but he called David Kimche, Director General of the Israeli Ministry of Foreign Affairs on the open line to assure him that that was not the case and that no deal had been struck for the release of Weir.

Do you recall Mr. McFarlane telling you that?

A Yes, I do.

Q Tell me what else he said about that.

A I think that's about it.

Q Is it fair to say that you knew at this point, [redacted] that Israel apparently was involved in an initiative to help gain the release of the hostages by trading arms?

A I can't put a handle on the timing. I was under the impression or the suspicion, [redacted] the desire of the Israelis to get an airplane to send an airplane of supplies to Iran, that they were dealing in arms with Iran.

And I just felt that that was part of the deal that the Israelis had with the Iranians. And there was, you know, a lot of speculation on that. I know there was a lot of effort on the part of the NSC to get the hostages out.

Q Mr. McFarlane said he called David Kimche on an open line to assure him that there had been no deal struck for the release of the Weir. In your experience, if Mr. McFarlane had wanted to engage in a conversation about a proposed deal to gain the release of Weir with Mr. Kimche, would he have called him on an open line?

A Not with something of that nature, but it was obviously he was sensitive to that, because he made mention that he was afraid to do it, but he called him on an open line.

Q Well, didn't Mr. McFarlane, to your knowledge, have the capacity to call an official of the government of Israel on the secure line?

A I don't know.

Q Well, let me ask it this way. Couldn't you draw from that conversation the inference that Mr. McFarlane wanted his conversation to be overheard and that's why he said he had called on an open line?

A That's a possible conclusion, but I couldn't arrive at that.

Q Did you draw that conclusion at the time you made this statement?

A I just took it for granted.

Q What did you make of the fact that he was telling you this and why did you think he was telling you?

A He might not have been telling me.

Q I'm sorry. Why don't you explain that.

A I think he just made that comment. Now it's conceivable he wanted the record to reflect that this was not an arms for hostage arrangement with the Israelis. I don't know what his motivation was. I can't speak to it.

Q Did he just volunteer this? It wasn't in the course of any conversation about the hostages or anything else? It was just something he volunteered?

A Normally if it was in the context of something else you would see it in the memo. I just can't recall what prompted him to say that.

Q Did he say anything about the NSC initiative, which in fact involved Israel and the shipment of arms, we now know in retrospect?

A No. If he did, I would have reported it.

MR. BARBADORO: Off the record for a second.

(A discussion was held off the record.)

MR. BARBADORO: Let's go back on the record.

BY MR. BARBADORO: (Resuming)

Q Mr. McMahon, do you recall any discussion in this 19 September 85 meeting about the hostages other than what is set forth in paragraph three of this memorandum?

A No, I do not. It's like a dangling

participle, but I just can't recall any more.

MR. LEON: We could ask for the record do you think Bud McFarlane knew that you would make a memorandum of that for the record?

THE WITNESS: No. I don't think so.

BY MR. BARBADORO: (Resuming)

[redacted]

[redacted]

Q What did they tell you in the briefing?

A That I don't recall specifically, [redacted] [redacted] that they are involved in negotiations.

Q Did they tell you about the negotiations?

A No.

Q Did you connect these negotiations in your mind with the Israeli initiative to trade arms for hostages?

A With the NSC initiative, yes.

Q And at that point, in October, what did you understand that initiative to be?

A I wasn't sure of the specifics other than to get the hostages out.

Q And were you also reasonably certain that it involved the transfer of arms from Israel to Iran?

A In my mind it did.

[redacted]

[redacted]

Q You've already mentioned a meeting that you had with Mr. McFarlane and Director Casey on November 14, '84. As of that date what did you know about this?

A Eighty-four?

Q Eighty-five. I'm sorry. As of that date what did you know about this initiative?

A I felt that the NSC was doing everything conceivable to get the hostages out, that they were not pleased with CIA efforts to get it through intelligence channels, so that they were working it through diplomatic and whatever contacts they could conjure up to cause that to happen.

Q Well, you've already stated that you also knew that there was a specific effort involving Israel, didn't you?

A Israel for sure. I felt that the whole effort initiated with Israel as far as the Iran situation was concerned.

Q You also knew or believed that it involved shipments of weapons to Iran?

A I had a strong suspicion that that was the case.

Q What did Mr. McFarlane say to you at this meeting on November 14 that added to your understanding of this initiative?

A He said nothing. He said it to the Director after I had left.

Q I'm sorry. Why don't you tell me exactly what happened at the end of that meeting?

A We got up to leave. I went out of the room. McFarlane continued to talk to Casey. I didn't hear the conversation. When I got in the car with Casey, when we were driving back to the Agency, Casey said, did you hear what McFarlane said? And I said no. And he said that the Israelis either had or proposed to ship arms to Israel -- arms to Iran -- and that was the extent of it.

Q Did you then tell the Director what you knew about this initiative?

A He knew as much as I did.

Q How do you know that?

A Well, he was at the same meetings, had access to the same cables I did.

Q And you don't recall any additional discussion with the Director?

A No. You've got to bear in mind that this initiative or action, I should say, operation, was an NSC operation and, you know, our feedback was whatever they told us or whatever we saw [redacted] [redacted] In fact, [redacted], were limited in distribution, and the NSC -- and I don't know which one, whether it was McFarlane, Poindexter or North -- directed [redacted] to limit the dissemination of those

And, if I'm not mistaken, State was excluded and McFarlane assured [redacted] he would brief the Secretary of State directly.

Q Did that concern you, that the State Department was excluded?

A (Nods in the affirmative.) Any time a player in government is excluded you usually get in trouble. There is a check and balance in our bureaucratic system and when you avoid it things screw up.

Q Did you express your concerns to anybody?

A I did with Casey, and also with [redacted] was very concerned about it, but nothing, you know, went beyond that.

Q You've described this both as an Israeli initiative and an NSC initiative. Which do you think it was and how do you put those two together?

A I think the arms for hostages with Iran was an Israeli initiative. When I speak of initiatives I think of the NSC beginning to play an active role in trying to release the hostages through foreign mechanisms, which NSC would normally do through either State or CIA, and it was the NSC itself doing it.

Q As far as you knew at the time, when did the NSC start this initiative?

A Oh, I can't recall, but I would say it has to be, you know, shortly after the hostages were taken and we couldn't do much about it.

Q I mean this particular initiative. I don't mean when did they start trying to find out where the hostages were and exploring alternatives to gain their release. I'm saying when did the NSC first start this initiative involving the shipment of arms from Israel to Iran to gain the release of the hostages.

A Well, if I look at the events of November '85, I'd say it would have to be November 23, 1985, or 22nd, I guess it was, when the shipment went.

Q So up until that point you saw the NSC's role as merely monitoring an ongoing Israeli effort?

A Yes. And the tie was, you know, Israelis to the NSC and NSC people with these contacts. There was no station or ambassador involvement that I was aware of.

MR. LEON: Were you familiar, Mr. McMahon, with the proposal that Bud McFarlane in the summer of '85 had circulated to the Directors of Central Intelligence, Defense and State about an Iran initiative, opening up an initiative with Iran? Does that ring any bells to you?

THE WITNESS: No, it doesn't.

MR. LEON: Do you remember hearing anything from the Director about how he was in favor of McFarlane's proposal of opening up new doors with Iran and yet Weinberger and Shultz were not in favor of it?

THE WITNESS: That probably centers around a paper that was prepared by our National Intelligence Officer, Graham Fuller, that expressed his growing concern that the Iran situation with the U.S. had deteriorated to nothing and that as events transpired in Iran the Soviets are in a much stronger position there than we are, and therefore initiatives ought to be taken to try and bring Iran back into the western orbit.

He felt that while the U.S. had no cards to play that maybe we could encourage the western Europeans to play a greater role with Iran in order to keep them away from the Soviets.

BY MR. BARBADORO: (Resuming)

Q I want to turn to that weekend in November now and I'll try to get through a couple of things relatively quickly. Your memorandum of December 7, 1985, summarizes your knowledge of what was going on that weekend, and it says that you first learned of it on Saturday, November 23, when Ed Juchniewicz asked you if you were aware of the efforts transpiring to get the hostages out, and your answer was that you weren't aware of the specifics.

Is that the way you recall learning of what was going on that weekend?

A Now what he said wasn't the hostages. The way he phrased it, he said do you know what these guys are up to. And he handed me a cable which was addressed to the charge [redacted] and I think it was from the Deputy National Security Advisor. At any rate, it was the National Security Advisor or Deputy National Security Advisor, and it was kind of a cable that was bemoaning the fact that [redacted] would not help out on this humanitarian mission. And that was about the extent of it.

And I read it. It was one of those cables that had no distribution other than the division and the DDO. I gave it back to Ed, and I said, look, it's okay to send cables. We do that all the time for Secretary of State or Defense or what have you, use our channels because they are more secure. But I said make sure we don't get involved, and that was Saturday morning.

And then Monday morning I came in and he said hey, do you know what those guys did? And I said what guys, and he said Secord. Now that's the name I heard. And I said what was that. And he said they used our proprietary to send over some oil supplies, and I said goddam it, I told you not to get involved.

And he said, we're not involved. They came to us and we said no. And they asked if we knew the name of a secure airline and we gave them the name of our proprietary. I said, for Christ's sake, we can't do that without a Finding. So then I went back to my office and I punched a button and I said you get those guys together with Sporkin.

And then I think that was the 7:30 time frame -- 7:15, 7:30 time frame. Then I went back down about 9:00 and I went in. Clair George's door was closed, and I went into his office and he had a bunch of people in there, and Clair said I'm just finding out what's going on, because he was away for the weekend.

And [redacted] was there, who was running the [redacted] and I said to him make sure you guys get over to Sporkin and we get a Finding. And then during the day I called Sporkin several times and I told him that I wanted a Finding and I wanted it retroactive to cover that flight.

And he came over, I think it was that night -- it may have been the next morning, but I think it was that night -- which would have been Monday, and this was after the [redacted] had briefed him, and he said well, we need a Finding, but I'm not so sure that we need a Finding for use of the proprietary. I said, what do you need the Finding for, and he said, well, they used our people overseas to contact government officials and they exerted influence on government officials.

I said okay, write the Finding. And I said be sure and make it retroactive, and he said I think I'll talk to the White House counsel and to Justice, and I said great. And he left and then, you know, the next day or so -- I can't tell you when -- I was standing at my table with several people around me and he came in and said here's this Finding.

It was a two-paragraph, very short Finding, and in that Finding it said, you know, we are directing you to provide everything you can think of, and I think it said, including munitions or something like that, and then the last paragraph was a kind of a quit claim that said, and this goes for any previous act any government official may have undertaken.

And I said perfect. I said get it to Casey and I said, get it down there.

Q Let me stop you there and ask you some questions about November 25. You were told on the 25th that Secord was involved?

A Yes.

Q Who told you that?

A Ed Juchniewicz.

Q And that was the first indication you had that Secord was in some way involved in this operation; right?

A Right.

Q What did he tell you Secord's role in the thing was?

A He didn't, and in fact it now seems rather incomplete, but I didn't even go into what was in the shipment. I accepted the fact it was oil equipment because, you know, the Iraqis had been pounding the hell out of Kharg Island.

Q Who told you it was oil-drilling equipment?

A Ed Juchniewicz.

Q When?

A On that --

Q On the Monday?

A On the Monday.

Q Did you connect this shipment in your mind with the ongoing Israeli initiative that you had read about [redacted]

A Yeah, but I didn't connect it in an arms sense, just that the Israelis were doing things with the Iranians, because it was my understanding that that shipment was going to Israel, not to Iran.

Q Did you think that it was ultimately bound for Iran?

A Yeah. I figured they'd transship it on their own planes into Iran.

Q But, in any event, on the 25th you didn't question Juchiewicz' assertion that it was oil-drilling equipment?

A My focus, and you might say it's strange, my focus was that we had done something wrong, that we weren't authorized to do, and I didn't care what was on that airplane. We had used our airplane to do something that we didn't have a Finding to do. And that's why I insisted on a Finding.

Q In your view it was the fact that the airplane was used to carry cargo bound for Iran that would have required a Finding regardless of the nature of the cargo?

A No. That was used our airplane to go anyplace at the request of someone else.

Q Well, the proprietary flew flights, though, for private individuals all the time, didn't it?

A But not arranged by CIA headquarters. They do them directly. They are out scarfing up their own business, but when we direct them to do something, when CIA headquarters gets involved, then we have to have an authorization to do that.

Q So as far as you were concerned any use of a CIA proprietary airline at the direction of the CIA would have to be done pursuant to a Finding?

A Definitely, unless it's out on an intel collection mission, put cameras in it or something like that.

Q When you learned that the proprietary had been used, your reaction was to immediately contact Mr. Sporkin and tell him that you needed a Finding prepared?

A Right.

Q You also told him in that first conversation that it needed to apply retroactively?

A Right.

Q Did you summarize what you knew about what had gone on that weekend for him?

A Nope. I just said I think our guys screwed up and you ought to take a look at it.

Q Did you think that the CIA was going to have to be involved on a continuing basis in this initiative, or did you think this was just a one-time occasion where over the weekend of the 23rd of November, one time, a proprietary plane was used?

A I didn't focus on that. All I knew is that we needed a Finding to cover that event. If the NSC in its dealings needed continued support, then we'd need a Finding to provide that.

Q And the only thing that you told Mr. Sporkin was that it had to apply retroactively? You didn't give him any other idea as to what he should put in that Finding?

A No.

MR. LEON: Paul, could I ask one question?

In your capacity as the Deputy DCI would you deal with Sporkin one-on-one on a regular basis or just once in a while?

THE WITNESS: No. I think we had, you know, a frequent dialogue.

MR. LEON: Would he also have that kind of a relationship with the Director himself?

THE WITNESS: Oh, by all means, yes.

MR. LEON: They had been working together for years?

THE WITNESS: Yes. Sporkin was in the Agency because of the Director.

BY MR. BARBADORO: (Resuming)

Q In this meeting with Juchniewicz on the 25th what were you told about the NSC's involvement in the initiative?

A He didn't mention NSC. He referred to "those guys", which I assumed to be the NSC.

Q Did he mention Colonel North?

A No. But when I came back here, I guess in January or February -- I don't know when it was; I guess it was for the hearing with the Senate Select Committee-- somebody told me that Juchniewicz said it wasn't Secord he mentioned; it was North. And I said to Ed, I said, don't you remember, you know, pounding your chest, and he said no, I didn't use the name Secord. I used North.

But, you know, I hadn't had any reason to say Secord unless he told me that. But, you know, it could be. I mean, could he have seen it from a cable from [redacted] where Secord was stranded and tied it in that way? I don't know.

At any rate, after that Monday deal I told Clair George to get together all the traffic and make sure that everything that had transpired on this, that we were in tip-top shape, and said stay on top of this.

Q Did you talk to Dewey Clarridge on the 25th at all?

A Late at night, late in the evening, let's say 6:00-7:00, something like that, Dewey came in with a cable to go out, and he said the Ambassador's been calling and trying to get ahold of Casey and he wanted to know if, you know, he should pursue with [redacted] to get their approval, and this cable said, you know, the Director is not here, but this was a National Security Council mission or operation and that he is not to pursue it further, and we signed it and sent it out.

Q Were you reading the cable traffic that was coming in and out that day on this issue?

A No.

Q On November 25 at [redacted] time a cable was sent to headquarters fro[redacted] describing the operation and in the cable [redacted] notes that the pilot told the ground controllers [redacted] that he was carrying military equipment. Do you ever remember reading that cable?

A No.

Q Did anybody tell you that there was an issue where the pilot had told the ground control at [redacted] that the plane was carrying military equipment?

A No. I'm not so sure that would surprise me, you know. What the plane was carrying was not my focus.

Q It didn't matter to you one way or the other?

A It didn't matter to me one way or the other.

Q When did you first come to doubt that there was oil-drilling equipment on the plane?

A I don't know. I've been asked that question before and I just can't put a time on it. If I was smart, I would have reacted where I saw the draft Finding that Sporkin had prepared because in there he had used the term "weapons" or "munitions" or something like that, but that just didn't focus on me at the time.

Q From the cable traffic it's apparent that planning for this operation continued well into December. Were you aware that planning was ongoing to continue this operation, to do additional flights into December?

A No. I just told our guys that they weren't going to do anything more until we got a Finding.

MR. EGGLESTON: There were two things that were in your memorandum of December 7 about November 25 that I wanted to ask you about. There's a line -- and I'll be glad to show it to you -- there's a line that

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reports on apparently your conversation with Juchniewicz of that day which says: "When General Secord visited the Agency he tried to get leads on airlines that might be available to move equipment to the Near East in a secure fashion."

Do you recall Juchniewicz -- I mean, this is your memorandum I'm reading from.

THE WITNESS: No, I don't recall that, and I don't recall Secord coming to the Agency.

MR. EGGLESTON: That's why I was curious. Do you recall today that Juchniewicz had told you that he had actually come to the Agency to look for --

THE WITNESS: No.

MR. EGGLESTON: The other thing I wanted to ask you about was did you have any conversation with Dewey Clarridge about what might have been on the aircraft or was he telling you about the efforts?

THE WITNESS: No. The only contact I had with Dewey on this was when he came in that Monday night with the cable going out to [redacted]

MR. EGGLESTON: And it's clear to you that you didn't have any knowledge about the use or proposed use of the proprietary until November 25?

THE WITNESS: You bet your life. I did not know until after the fact.

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MR. EGGLESTON: One last one and then I'll let you take it on further. There's another line which says: "After repeated calls to NSC personnel on 27 November during the week of 2 December continuously receiving reassurances" -- well, forget it. It was the one before that, actually.

"The Finding was cleared with the Director, who called McFarlane and Don Regan to ascertain that indeed this had Presidential approval and to get assurances that a Finding would be so signed." I take it this memo is reporting on conversations that you had with the Director about it?

THE WITNESS: Right, and I also recall going in to the Director's office and he was on a phone to some unknown person. He was just saying we need a Finding.

MR. EGGLESTON: And he told you he had spoken to McFarlane and to Don Regan?

THE WITNESS: I believe that's where I got the information, yes.

BY MR. BARBADORO: (Resuming)

Q So into the end of November and early December did you have any knowledge that planning for this operation was continuing within the CIA?

A No. They were under instruction that we would do nothing until we had a Finding.

Q When did you first read the Finding that Mr. Sporkin prepared in November?

A I think it was a day or two later. It was probably the next day. It must have been like Tuesday or something like that.

Q Who showed it to you?

A I believe it was Sporkin. As I said, I was standing at this table and I handed it back and said great. Yeah, it was Sporkin. I said go get the Director to shoot it down.

Q And you were shown the Finding before it was sent off to the White House for signature?

A I was shown that draft Finding, and then I think that the Director took it down to Poindexter and McFarlane.

Q Let's mark the Finding, along with a cover memorandum, as Exhibit 9.

(The document referred to was marked McMahon Exhibit Number 9 for identification.)

(Pause.)

A Yeah. I see "certain foreign material and munitions may be provided."

Q And you are quoting from the Finding now, correct?

A Yes. And that should have triggered me that, you know, munitions were very much a part of it, but it didn't.

Q Is that the Finding you were shown?

A The Finding was not structured as such. It merely had two paragraphs in it. It was written across. So I didn't see this formal Finding before it went; I just saw this draft part of it, and I looked at it, you know, and said fine.

Q Is the content of this draft I have in front of you substantially similar to the draft that you were shown by Mr. Sporkin?

A Yes, as I recall it.

Q And to your knowledge this was sent to the White House when?

A I think the very next day.

Q The first page here is a cover memorandum dated November 26, 1985. Is that approximately when it was sent over?

A Well, you can't tell from this, because the date is typed in as opposed to stamped in, but I would say normally you could assume that.

Q Do you know how it got over to the White House?

A No, I don't. I was under the impression the

Director took it down, but I don't know.

Q What efforts did you make to determine whether this Finding was signed?

A Well, I called down. I know the Director called down. And during that time period Clair George had some meetings with Poindexter, and I said be sure to check and see if that Finding has been signed. And then I knew that Charlie Allen was in contact with North all the time, and I would ask him to check to see if the Finding was signed, and he would come back and report, you know, what was going on with Ghorbanifar or what have you.

I would say is the Finding signed. And at one point he said Ollie said the only copy of the Finding is signed and is in his safe. And I found out --

MR. LEON: Who told you that?

THE WITNESS: Charlie Allen. And I found out when I came back last, whatever year this was -- when I came back for the hearing with the Senate Select Committee I went in to the Agency to look at the Findings and Bernie Makowka was there and he said that he was down in the White House or the EOB building, whatever, when Ollie North said that, because he said, I heard that and that date was December 24, which surprises me.

But, at any rate, I can remember that I was not going to let anything happen in the CIA as far as movement of anything until that Finding was signed, and that's why I was constantly interested in whether it was signed or not. So Ollie made that statement on December 24, according to Bernie Makowka.

BY MR. BARBADORO: (Resuming)

Q Isn't it contrary to normal practice for the CIA not to get a copy of a signed Finding?

A Well, this is the only occasion that I know.

Q Did that concern you, that you didn't get a signed copy?

A No, because if we now had that NSC running this "operation" and since the lives of the hostages were at stake I could rationalize very easily not passing that around. And in fact I think Casey in his covering memo says, you know, don't float this all below. Just go get it done.

And it is unusual. In fact, it's the only time that I can remember that we didn't get a copy of a Finding.

Q This Finding is a straight hostage rescue Finding. That's the only purpose for which the actions by the Agency are authorized; correct?

A That's correct, as I read it.

Q Were you aware of any other purpose for this

NSC initiative on November 25-26 of 1985?

A No.

Q You weren't aware that it had as another goal the opening up of relations with Iran?

A No.

Q The Finding states that the activities authorized are the provision of assistance by the Central Intelligence Agency to private parties in their attempt to obtain the release of Americans held hostage in the Middle East. Who did you understand the private parties to be?

A Probably the Israelis and their contacts.

Q So you meant government of Israel and their contacts?

A Their go-betweens with the Iranians.

Q What did you understand Secord's role to be?

A I didn't know.

MR. LEON: Could I ask him something about that? Let me ask you this, Mr. McMahon. On the Finding, proposed Finding, which -- well, do you know if it was ever signed?

THE WITNESS: I know now it was not signed.

MR. LEON: As to this Finding here on the Finding itself, which is C-2864, there is some language I would direct your attention to that states: "Until such time as I may direct otherwise."

THE WITNESS: Yes.

MR. LEON: Now as I understand this language this provides in essence that the substance of this Finding will not be reported to Congress until such time as the President may direct.

THE WITNESS: That's correct.

MR. LEON: So, in other words, the initiative has to come at a later time from the President?

THE WITNESS: Yes.

MR. LEON: It's not the normal process that usually is embodied in Findings, is it?

THE WITNESS: That's correct.

MR. LEON: Did that catch your eye when that came to you?

THE WITNESS: Not, not specifically. But what I was content in doing was I didn't know how long this would transpire. Normally we would brief Congress and alert Congress as soon as we got the Finding. We'd call Congress and, I think, kind of the ground rules we had with Congress we'd do it within 48 hours.

But here if you had a number of hostages there is obviously an arrangement where the Iranians wouldn't let everything go in one fell swoop. So if you were going to do something to get one hostage out the security of the last hostage is as important as the first one. So it may take a time frame, and I just assumed that it was going to be done over a time period.

MR. LEON: So if I understand you correctly as to that clause you saw that as a clause to protect the ongoing hostage release project?

THE WITNESS: Yes. But you've got to remember I didn't see this clause in the Finding as I saw it. I only saw this part here (indicating).

MR. LEON: For the record, when you say "this part here" you are talking about the description portion of this document?

THE WITNESS: Right, but this is kind of normal boilerplate except for that last statement.

MR. LEON: All right. Let me focus on that. Before that last phrase, which is unusual, by your own testimony --

THE WITNESS: Yes.

MR. LEON: -- was included here, were you told that it was going to be included?

THE WITNESS: Yes.

MR. LEON: Who told you?

THE WITNESS: I was told in this sense. The mystery person who advised me that the Finding was signed on December 5 said also that the President does not want you to advise Congress at this time.

MR. LEON: Who told you?

THE WITNESS: I don't know, and it is a crucial thing to this whole program and why I didn't know who told us that, I don't know. I don't know whether Casey told me that it had been signed. I don't know if Poindexter told me. And on the 5th of December at 7:30 in the morning Poindexter called me, but whether or not he was the one that told me, I can't say, and it would be unfair to say that he was.

I do recall --

MR. LEON: Could I stop you there a second? Who would you say would be in the universe of possible people to have told you? Casey obviously is one.

THE WITNESS: Casey, McFarlane or Poindexter, or Sporkin.

MR. LEON: Okay. And you were aware that McFarlane was out of town at that point? He was out on the West Coast?

THE WITNESS: I didn't know that.

MR. LEON: But on the 5th of December someone relayed to you the fact that this was in it?

THE WITNESS: Right, or not to tell Congress at this time. Now an interesting thing. On the 5th of December I had a meeting in my office with some analysts and with [redacted] who was the Deputy Director of Europe at the time, Deputy to Dewey. And in my assistant's notes she had cryptically said [redacted] said the Finding is signed", or something like that. It was to that end.

And I called [redacted] when I was trying to remember who told me about it on the 5th. I said, you know, in the meeting there is this note that you said the Finding was signed. Who told you that? And he said, I never said that. I wouldn't know that.

And so I'm at a dead end. You would think that something that critical and crucial, that I would have known who the hell told us that, but it, you know, just went right over my head.

MR. LEON: The reason I ask is that I asked Bud McFarlane when he testified if he had ever seen that kind of clause before in one of these Findings, and he had said only one other occasion in his whole career.

THE WITNESS: And I wouldn't know what that was.

MR. LEON: Had you ever seen it before on any other occasion?

THE WITNESS: Not that I can recall. It might have been, if it were on the Iranian hostage rescue, it would have been before McFarlane's career.

BY MR. BARBADORO: (Resuming)

Q You made a reference to a meeting on December 5 with [redacted] Other people were present at that meeting as well, correct?

A Yes, a number of them.

Q Bob Gates was there?

A I believe so, and several analysts.

Q [redacted]

A Yes.

Q Ed Juchniewicz and [redacted]

A That sounds about right.

Q What was the purpose of that meeting?

A Probably to discuss where we were in the Iran situation, the Iran hostage situation. I can't recall the specifics of it.

Q There was to be a meeting with the President on December 7. Was this meeting on December 5 to help prepare for that meeting on the 7th?

A That would make sense, yes.

Q Let me mark as Exhibit 10 [redacted] reconstruction of that meeting from her notes, which bears the Committee numbers I-395 through I-398, and is CIIN number 11.

(The document referred to was marked McMahon Exhibit Number

10 for identification.)

A Doesn't she make reference in there to [redacted]

Q Why don't you read that entire memorandum for me?

(Pause.)

A This here suggests that the planning was still down in the NSC, so plans were obviously continuing but we weren't a part of that show.

Q You are referring to page two of the memorandum and the last line under the first bullet, saying Oliver North was lining up the planes, we don't know how.

Let me ask you some general questions about the memorandum first. The memorandum states that it's a reconstruction of notes made by [redacted] of a meeting attended by you, [redacted] Bob Gates, [redacted] Ed Juchniewicz, [redacted] and [redacted] Is this memorandum an accurate reconstruction of what went on at that meeting, as far as you can remember?

A Yeah, it refreshes my memory on that.

Q Having read it, do you have any idea as to what the purpose of the meeting was?

A I would submit that it was to get me pumped up for a meeting with the President on Saturday morning.

Q The memorandum states that "the DDCI requested facts on the following: the political scene in Iran; biography of [redacted] verification of was it true that Iran was trying to get U.S. HAWK missiles to knock out Soviet BEAR aircraft; the status of the Iran-Iraq war."

I want to ask you first why were you requesting a biography of [redacted]

A I would suspect -- and I can't recall for a certainty -- that he was probably identified to the NSC as one of those people that the Israelis had good contact with, or that he is moderate and the Israelis wanted to contact him.

Q Who would have mentioned that to you -- somebody at this meeting?

A No. I don't know, you know, how I came upon that.

Q It says in the memorandum under things you requested, "was it true that Iran was trying to get U.S. HAWK missiles to knock out Soviet BEAR aircraft over Iran or the Iran-Iraq border." Why were you asking a question about the uses to which U.S. HAWK missiles could be put?

A I'm pretty fuzzy on this, but what I think happened is that this came out of a prior meeting where these assertions or statements were made, and it could have been with Charlie Allen or with some of our intelligence analysts or ops people, and what I wanted to do was get the facts in back of those assertions.

Q Is it true that by this date, December 5, you had a pretty good idea that HAWK missiles were what were being shipped?

A No, I don't think I can conclude that.

Q Why were you asking questions about the uses to which Iran could put HAWK missiles?

A Because I recall the statement being made that the Iranians -- and I think this came from the Israelis through the NSC channel -- that the Israelis said the Iranians were upset with the Soviets coming down and overflying Iran, and they needed something to get them. But, you know, I'm reaching on that one. I don't know for sure.

Q In the second paragraph it says "DDCI noted he would be attending a meeting at 10 a.m. on Saturday, December 7, with the President regarding the expansion of the informal link between the Iranians and the Israelis. He", meaning you, "noted that a new 'private interlocutor' was working with Israeli Foreign Ministry official David Kimche."

Who is this "private interlocutor" that you are referring to?

A Probably Bud McFarlane.

Q You would have characterized Bud McFarlane as a private interlocutor?

A Yeah, I think so.

Q Why would you characterize him that way?

A Well, I don't think everybody in the room needed to know that Bud was now our mouthpiece to the Israelis on this Iran program.

Q Who was the old interlocutor?

A I don't know.

Q And who told you that Bud McFarlane was now working with David Kimche?

A I don't know. I really don't know. In fact, it's obvious that that may have been ths subject of the Poindexter telephone call at 7:30 that morning, and that could have been a spinoff of that.

Q The second line in that paragraph says: "Noted that Iran wanted to get closer to the United States, and wondered (DDCI) whether this could be a ruse to get HAWK missiles." Were you wondering whether this whole initiative was simply a rusa to get HAWK missiles? Is that what that means?

A I think the whole initiative was a ruse to get, you know, U.S. weapons. But, you know, that's pure conjecture there.

Q But again there's a reference to HAWK missiles and your speculation that the whole thing might have been simply an attempt to get HAWK missiles. Didn't you know by December 5 that this initiative involved the shipment of HAWK missiles from Israel to Iran?

A I still have to say I don't recall. I should have, and chances are I did, but it goes back -- the Iranians really wanted everything. You know, they needed anything. They had HAWKs; we know that. And they were firing them, so they had to have replenishment. The only place you get them is from an American or a country supplied by America.

Q On the second page of the memorandum, under the bullet, [redacted] reviewed what had been done so far, there is the statement that President signed Finding. And beside it in handwriting: (I am not certain who at the meeting actually said this) [redacted] initials and the date. Is it fair to say that you also recall somebody saying at the meeting that the President signed the Finding but you can't remember who it was?

A No, I can't say that. On the 5th I learned of the Finding being signed, but I can't say whether that meeting was the cause of it or not.

MR. LEON: We should say "allegedly signed".

THE WITNESS: Allegedly signed, yes.

MR. LEON: Do you think you were being duped?

THE WITNESS: Me, being McMahon, or me, being CIA -- or both?

MR. LEON: Well, let's put it this way.

THE WITNESS: Do I act like I'm being duped?

MR. LEON: No. Let's put it this way. Correct me if I'm wrong. You were the person at the Central Intelligence Agency who clearly was pushing to get it signed; correct?

THE WITNESS: Right.

MR. LEON: And did you ever think then or now that your being told it had been signed was an effort by someone, conscious effort, to get you off their back?

THE WITNESS: I would have to agree with that conclusion, since CIA was not going to do anything until it was signed.

MR. LEON: Did you think it back then or are you thinking that now?

THE WITNESS: Oh, no, that was then, right then and there. That's why I kept inquiring, because I knew we were not going to undertake any support without that Finding being signed.

MR. LEON: And with Bud McFarlane leaving, resigning on December 4, effective the end of the month, and with John McMahon -- excuse me, John Poindexter going to succeed him, who did you view -- whose job did you view it to be to ride herd on getting that thing signed over at the NSC?

THE WITNESS: Poindexter.

MR. LEON: And did you speak with him personally at some point to ask him? I take that back. He could have been the one who told you.

THE WITNESS: Yes. But, you know, I can't say. One thing that was certain, though. I knew Casey was on board as far as needing a Finding, and he wanted that Finding signed. So there was no doubt in my mind that Casey would push for that Finding, and that's why I am content that nothing happened in CIA in support of this operation other than intelligence that Charlie Allen would wrap around in until that Finding was eventually signed.

And, if you recall, later on when it was signed on the 17th and they told me about it on like the 24th or something like that, then we got involved in the next shipment.

MR. LEON: And did you think on December 5 that Casey had also been told it had been signed?

THE WITNESS: Casey had to know that it was signed.

MR. LEON: Allegedly signed.

THE WITNESS: Allegedly signed, yes.

BY MR. BARBADORO: (Resuming)

Q The last thing I want to ask you about this memorandum is on the bullet: a review of recent Iranian reporting, noted the following, there is a statement "Weir released for one planeload, got nothing for second load, [redacted]

Were you told in this meeting that Reverend Weir had been released in exchange for a planeload of something?

A Yes, but don't ask me who told me.

Q Who told you or what was in the plane?

A Yeah.

Q You don't know? You can't recall whether anybody said what was in the plane?

A No.

[redacted]

Q Tell us what happened at the meeting on December 7 with the President.

A Present were the President, Secretary of State, Secretary of Defense, John Poindexter, Don Regan, and myself. The meeting opened with Bud McFarlane stating that David Kimche had been in touch with him and that the Israelis are in touch with a group of moderates in Iran that are pro-west, pro-U.S., and that the Israelis feel if we strengthen the moderates' hands by giving them arms that it will permit them to have a more favorable role in the Iranian government and open up initiatives with the Iranian government and possibly the Iranians will help us with the hostage situation.

And it was rather a long brief, but that in essence is what he said, as far as I'm concerned. I may not have done justice to it. I said that I was unaware of any moderates in Iran, that most of the moderates had been slaughtered by Khomeini, that whatever arms we give to these so-called moderates they will end up supporting the present Khomeini regime and they would go to the front and be used against the Iraqis and that would be bad.

Secretary Shultz opposed it from the sense that it looked like we were ransoming hostages, that he really didn't subscribe to the Israeli claim of the moderates in the western orbit. The Secretary of Defense spoke against it, thought it was a bad idea, also cited the present embargo that we have. The rest of the meeting, which took probably more than an hour, or at least an hour, was basically Shultz and Weinberger countering the President, who felt that the U.S. must make some efforts to open a dialogue with Iran.

And the whole thrust of the President's pitch was that we ought to pursue a policy of trying to win the Iranians back. And that was about the extent of the meeting, and there was no conclusion at the end of the meeting, as far as I was concerned. When the meeting broke up -- and it broke up because the President had to go to his 12:00 Saturday fireside chat, radio broadcast-- I walked out of that room not knowing what to do.

And the President kind of commissioned well, why don't you folks talk more on this and see what ought to be done. And that's how it ended.

Q Did Don Regan say anything at the meeting?

A I don't think Don Regan said word one. If he did, it was very short. I recall Poindexter making some comment that I would say endorsed the thought of the initiative with Iran, but that was, you know, maybe a sentence or two and that was it.

Q Who was advocating continuing the initiative?

A Well, I came out of the meeting thinking that Bud McFarlane was the advocate, but the more I've thought of that, the more I feel that Bud was nothing more than a messenger. He was saying here is what the Israelis propose and in justice to him he didn't take a pro or con.

Q Did he attempt to counter the negative arguments being made by Shultz and Weinberger?

A No, I don't recall that.

Q You mentioned that the President engaged in a rather lengthy interchange with Weinberger and Shultz.

A Yes.

Q Was the President an advocate for continuing with the initiative?

A I think he was querying, challenging, trying to, like a devil's advocate in postulating things to both Weinberger and Shultz.

Q He was taking the side of continuing with the initiative, but you couldn't determine whether those were his real feelings or whether he was simply trying to explore the pros and cons of the initiative?

A I would say it was the latter. He did not come out and say I think we ought to do this or I think this is a good idea. He was simply trying to draw out the rationale and the merits of doing it.

Q And when he tried to draw out the rationale or merits of doing it, did he discuss the desirability of getting the hostages out, or were his discussions focused primarily on the desirability of improving the relationship between the United States and Iran?

A I can't honestly answer that, and the reason is that I was convinced that all of this was an arms for hostage arrangement, no matter what you called it, and I felt that the effort by the Israelis with this proposal was giving us a cover for effecting a hostage release, because they were well aware that, one, we couldn't pay ransom and all like this, and by doing it under the umbrella of, you know, wooing the Iranians back to western orbit gave the President the secondary effect of getting the hostages released.

And so, you know, intelligence officers aren't supposed to be biased, but I was biased in that sense, so whatever I heard I kept it in that context.

Q Was there any discussion at the meeting about previous efforts that had gone on with Israel?

A Not one, and that surprised me afterwards. It also surprised me that I didn't say, hey, Mr. President, you know, we've already given them this. But I didn't, and why I didn't, I don't know.

Q Did the subject of the Finding that you had found out just two days before had presumably been signed, did that come up in the meeting?

A It never came up, and the reason being is that, as I try to figure that out, is this was more of a direct U.S. involvement than really kind of letting the Israelis do things.

Q What did McFarlane say about how this initiative was supposed to work?

A He didn't say. I don't recall it at that meeting anyway.

Q Was there any discussion about whether the arms were to be shipped from Israeli stocks to Iran?

A I don't recall the mechanics were discussed at all. I think it was the policy issue that was the focus.

Q Well, then what caused you to say that this was different from the previous initiative because it involved more direct U.S. involvement?

A Because we now had the U.S. agreeing as a policy that this is what we do, that we would permit the Israelis to do this or resupply their arms or what have you, but I don't recall the mechanics being discussed.

MR. LEON: Did McFarlane report on his trip to London in the sense that he had met Ghorbanifar and was personally --

MR. EGGLESTON: He hadn't had it yet.

MR. LEON: That's worth noting. I'll change my question. Did you know that McFarlane was going the next day to London to meet with Ghorbanifar and others?

THE WITNESS: No, I did not.

MR. LEON: Did that come up at the meeting at all?

THE WITNESS: No, it did not, not that I recall.

BY MR. BARBADORO: (Resuming)

Q Did you clear your position on this issue with Director Casey before you attended the meeting?

A No, but I thought Casey and I were in synch on this all along, you know. I don't know at what point in time he said this, but he made a comment. He said, I think this whole Iranian thing is crazy, and I don't know, you know, whether he said that after we were involved with the November flight or not. I just don't know at what point in time.

But I felt I was representing his and the Agency's position.

Q So you understood Director Casey, at least at this time, to be opposed to continuing the initiative?

A For the reasons cited, yes. I think the thought of moderates in Iran and all of that. I believed Casey would agree that it would be a good idea to have

Iran in the western orbit, but I don't think we thought it was possible at that time.

MR. LEON: Let me follow that point up there. There's a notion, Mr. McMahon, that's out there that Bill Casey wanted all of this to happen because he was hell-bent to get back, at an earlier point he was hell-bent to get back Mr. Buckley. Did you have any sense that Casey was so distraught over Buckley's kidnapping and so desirous to get Buckley back that he was behind pushing all of this?

THE WITNESS: No, I don't think that that was the case at all. And I saw no evidence of that. We were concerned for Buckley. We were anxious to get him out. But that never really entered the equation. Buckley didn't enter the equation any more than any other hostage.

MR. EGGLESTON: Could I just ask you could you elaborate on what Weinberger said at the December 7 meeting? You said he mentioned the arms embargo.

THE WITNESS: I think Weinberger took it in the context we have, you know, asked other nations not to ship arms to Iran, and, you know, we shouldn't do that. He just thought it was a bad idea.

MR. EGGLESTON: Did he say that there were various legal restrictions on shipping arms to Iran?

THE WITNESS: He referred to the embargo act or something like that.

MR. EGGLESTON: Do you recall if the President reacted to that, to that suggestion?

THE WITNESS: No.

MR. EGGLESTON: Could I just ask a question that's probably stupid but I never quite understood? How was it that we were going to get -- and maybe you don't know the answer to this, but how was it that we were going to ship arms just to moderates? What was going on?

MR. LEON: That's a good question.

THE WITNESS: That is a good point, and I made that point, saying that if you give to these so-called moderates it will be to the Khomeini regime. But I think the context in which it was offered was that if the moderates can get the arms, they can say, see, boss, we've got the leverage and that would enhance their position in the Iranian government, so that they might be able to modulate what the Iranians do vis-a-vis the Americans or, you know, the western world.

So I think it's in that context.

MR. EGGLESTON: But the boss would be Khomeini, presumably?

THE WITNESS: Oh, the boss is Khomeini, but everybody was -- like now, we were waiting for him to die for years.

MR. EGGLESTON: But it's clear that the government is going to use these arms.

THE WITNESS: You bet your life. It was not a separate action on the side. The arms were for Iran against the Iraqis, and that's what the Israelis want.

MR. EGGLESTON: Did you articulate -- I just don't remember if you said this -- a view on behalf of the Agency at this meeting? Did you say what your view of the initiative was?

THE WITNESS: Who's initiative?

MR. EGGLESTON: This December 7 meeting, did you say anything?

THE WITNESS: Yes. I spoke against the fact that there were moderates in Iran. I said, you know, all the moderates were killed and that whatever arms we did send would end up on the front line against the Iraqis, and that was bad.

MR. EGGLESTON: Would it be fair to say that your general advice, then, was not to go ahead?

THE WITNESS: Was negative, but an intelligence officer doesn't comment on policy, only the pros and cons from an intelligence standpoint of it. I couldn't say that it was a good idea or a bad idea.

[redacted]

[redacted]

BY MR. BARBADORO: (Resuming)

Q Did Director Casey brief you on his meeting with the President and others on December 10?

A I don't recall that. He may have. You know, I don't know.

Q Well, let's mark this and I'll show it to you as Exhibit 11. It's a 10 December 85 memorandum for the Deputy Director of Central Intelligence from the DCI concerning a meeting with the DCI, the President and others on December 10.

(The document referred to was

marked McMahon Exhibit Number 11 for identification.)

(A brief recess was taken.)

BY MR. BARBADORO: (Resuming)

Q Do you remember getting this memo, McMahon Exhibit 11?

A I don't, but it doesn't surprise me. The overall subject matter is familiar and it looks like what the Director did is provide me with a following chapter to the meeting that I had on the 7th.

Q What was your understanding as to what was happening with this initiative between December 5 -- excuse me, December 7 and January 16, what happened to the initiative during that period?

A I think it was held to basically discussions and probing and seeing what was possible, keeping the door open until the Administration really decided what it was going to do, and that the Agency was involved in an intelligence support initiative principally. [redacted]

Q Is this reference in McMahon 11, in the December 10 '85 memo, to Ghorbanifar the first idea that you had that this guy Ghorbanifar was involved in this initiative?

A I can't say. I do know that we had told the NSC that we had burn notices out on Ghorbanifar, that he was not trustworthy. In fact, if I'm not mistaken, I sent a memo down to the NSC which was prepared by the Near East Division, and I'm not sure what date it was, but Ghorbanifar to CIA was not someone that you wanted to hang your trust in.

Q At some point the CIA was asked to do a polygraph of Ghorbanifar, weren't they?

A That was much later on, yes.

Q Not until January.

A Yes, January or after that.

Q Wasn't there discussion in December about polygraphing Ghorbanifar?

A I don't recall. Anyway, we didn't think Ghorbanifar was the shining example that the NSC ought to be in touch with.

MR. EGGLESTON: Was there any discussion of Ghorbanifar specifically at the December 7 meeting?

THE WITNESS: I don't recall his name or any other name being mentioned. I think David Kimche was the only person that McFarlane referred to.

MR. LEON: Did Mr. Casey comment to you at any time that Bud McFarlane's reaction to talking to

Ghorbanifar in essence was that he was personally repulsed by him and by the idea that he basically wanted to swap hostages for arms? Did you ever get that from Casey?

THE WITNESS: No, other than the comment that Bud made following this 10 December visit.

BY MR. BARBADORO: (Resuming)

Q So as far as you know, between December 7 and January 17 the initiative was never shut down; it wasn't acted on, they were just continuing discussions about what to do with the initiative -- whether to continue it and, if so, how? Is that your sense of what went on during that time period?

A Yeah. My sense is that the NSC had the ball to sort this out and I was content that the Agency was not involved in doing anything, because I never saw any, you know, action coming forth for us to move arms or anything like that.

Q Are you aware that Mr. Sporkin was involved in doing additional drafts of the Finding?

A It was quite surprised to learn that there was a Finding prepared, I believe dated the 6th of January, by Sporkin and the Director at the White House. I don't recall being privy to that.

Q Well, I'll also tell you that we have drafts obtained from CIA files of the Finding dated January 2.

A That's the second. That's the date.

Q January 3, January 6, and then the Finding that was signed on the 17th. Are you aware of any of those Findings? Were you aware at the time of any of those Findings being worked on?

A I was not aware of the 2nd, the 3rd, or the 6th. The next Finding that I saw, other than our proposed draft back in November, was the one that Poindexter showed me on the 24th, I believe, of January, 1986, and that Finding was dated 17 January.

Q So you had no idea that Sporkin was meeting with Oliver North and working on drafts of the Finding in early January?

A No, not that I recall.

Q And you had no idea on the 17th that a Finding was presented to the President?

A No.

Q Signed by the President?

A No.

Q You didn't even know that a Finding had been signed by the President in January until the 24th; is that right?

A That's correct.

Q How did you learn that?

A Poindexter called me down to his office and he showed me the Finding dated the 17th of January, and I read it quickly, noted the President's signature. Poindexter said that it had been cleared with the Attorney General. And the new wrinkle in it, as far as I was concerned, was that we were to provide intelligence to the Iranians on Iraq, and I objected to that. I felt that that was really swinging the balance of the war to give the Iranians intelligence that we had.

If I can recall accurately, the way Poindexter phrased it was that we were to supply TOW missiles with some intelligence to the Iranians in a series of tranches, and after the first tranche then we were to get a hostage out, and then we'd do a second one and get another one. And he said if they don't come through, then all you've lost is a little intelligence.

And I went back. What they wanted was intelligence on the battlefield area on the front, and I think that meeting was on a Thursday or so. I don't know what the 24th was. At any rate, on, I believe it was, Saturday, the 25th, Ollie North came over to get the intelligence.

Q Let me stop you because I'll get to the 25th.

(Pause.)

A Whose calendar is this?

UNCLASSIFIED

MR. LEON: Ollie.

THE WITNESS: Ollie wasn't there. On the 26th does he say --

MR. LEON: On the 26th?

THE WITNESS: The 25th.

MR. LEON: The 25th is a Saturday. His calendar doesn't indicate it.

THE WITNESS: Okay. Well, the 24th is what date -- the Friday. Okay. Then it was the next day he came over.

BY MR. BARBADORO: (Resuming)

Q So the record is clear, you were referring to North's calendar for that period of time just then, weren't you?

A Yes. But what I was really after was what day the 24th was.

MR. LEON: Ollie came to the CIA?

THE WITNESS: I believe it was Saturday the 25th.

MR. LEON: For what purpose?

THE WITNESS: To get the intelligence that the Finding had directed us to provide.

MR. LEON: What kind of intelligence was it?

THE WITNESS: On the Iran-Iraq front, military intelligence.

UNCLASSIFIED

BY MR. BARBADORO: (Resuming)

Q Between December 7 and January 17 did anybody discuss with you the specifics of any proposal to ship U.S. arms to Iran to gain the release of the hostages?

A Well, at some point during that time period I think the emphasis on arms began to center around TOWs, but I don't recall anything other than they were thinking of sending TOWs.

Q And who would you discuss this proposal with?

A Oh, I'd pick it up in the hall if someone ran into me or something like that. But I was content that CIA was not involved in what I would call any active operation to provide any weapons. I just don't recall us being tasked to do that.

Q Up until December 1985 the arms had come from Israel. When did you learn that proposals were under consideration to ship arms from the U.S. to Israel and then to Iran?

A I don't know.

Q Was it before you learned of the January 17 Finding or after?

A Oh, it was before the Finding, yes. In fact, it had to be December, at the December 7 meeting.

Q Did you discuss at the December 7 meeting specifically what kind of U.S. arms you would be shipping?

A No. And in fact, if I remember right, at that time it wasn't certain that we would send the arms directly or we would have the Israelis do it and we would replenish it. I think that was, you know, still an uncertainty at the time.

(A discussion was held off the record.)

MR. BARBADORO: Let's go back on the record.

BY MR. BARBADORO: (Resuming)

Q Mr. McMahon, is it fair to say that you were unaware that Mr. Sporkin was working on drafts of the Iran Finding between January 1 and January 17?

A I think that's a fair representation. I don't recall any knowledge of his involvement there, and I was unaware of Findings being prepared at that time.

Q And you also were unaware that the President actually signed a Finding on the 17th? You were unaware of that when he did it?

A That's correct.

Q And you didn't learn that the President had signed the Finding on the 17th until sometime on or about the 24th or 25th of January, when you were called down to the White House by Mr. Poindexter and informed of the Finding?

A On the 24th of January, '86.

Q Is it also fair to say that between your December 7 meeting with the President and the January 24 meeting with Admiral Poindexter that you were aware that there were ongoing discussions at the NSC as to what form the initiative should take but that you were not made aware of any specific plans as to how the initiative would be conducted?

A I think that's a fair representation. Our involvement, as far as my recollection, was in the provision of intelligence, of an intelligence collection nature, not in an operative way.

Q What do you mean by that?

A That we weren't involved in executing an action in behalf of the NSC on this initiative. We would collect intelligence. We would vet names of people that they asked us. So we were in an intelligence supportive role from the sense of production of intelligence or the collection of intelligence, but not in the role of carrying out or furthering a covert action.

Q Were you personally involved in any planning sessions as to what form this covert action should take?

A No.

Q To your knowledge did anyone else at CIA participate in any planning sessions as to what form this covert action should take between December 7 and January

17?

A People may have been involved, but they were involved as intelligence representatives, not as covert action representatives.

Q When Admiral Poindexter showed you the January 17 Finding on January 24, what did he tell you about the covert action?

A He said that the President had approved the provision of TOWs to the Iranians and that we were also to provide them intelligence. In fact, the Finding was a very broad one as far as what we could do in this program. I objected to the provision of intelligence, feeling that it would give the Iranians a strategic edge, and he said that we would not risk that much, that we would provide some TOWs and some intelligence and we would get a hostage, and then we would do another one.

And if the Iranians didn't come through, then all we lost was a little intelligence.

Q Did he tell you how many TOWs were going to be sold?

A I thought the total was 4,000 TOWs.

Q Did he tell you whether these TOWs were going to be sent all in one shipment or were they going to be sent in different shipments?

A They would be in separate tranches. The exact number in each tranche was never mentioned.

Q Who was going to be involved in shipping these TOWs to Iran?

A That wasn't specified at the time of our meeting, but I assumed that we were going to be the mechanism for getting the TOWs from DOD and shipping them over, and whether they were going to go to Iran directly or to Israel I don't think I knew at the time.

Q What was Israel's role to be in this covert action?

A Well, I think -- and I'm not sure of the time phasing here -- originally I thought we would replace TOWs that the Israelis had, but I think that proved to be a difficulty and so we ended up sending them over there, and I had assumed that Israel would be used as a transshipping point.

Q In the meeting on January 24, 1986, did Admiral Poindexter explain to you what Israel's role was going to be in the transaction?

A No. I don't think so.

Q By that point did you know that Israel was only going to be a transshipping point as opposed to the entity actually providing the weapons to Iran?

A No. It was unclear at the time. I just didn't focus on that.

Q Did Admiral Poindexter tell you at this January 24 meeting what, if any, role General Secord was going to play in the transaction?

A Secord's name never came up.

Q Did you think that any private parties were going to play any role in this transaction as it was described to you on January 24?

A No, not at that time. If someone mentioned to me private parties, I would look upon them as the facilitators with the Iranians to get the shipment in if. we were getting the TOWs and moving them over there. I didn't see the role for anyone else.

Q CIA was perfectly capable, through the use of its proprietaries, of shipping the arms directly to Iran itself, wasn't it?

A I believe so, yes.

Q Did you see any purpose for using private parties in this transaction at all?

A Well, other than the point that the NSC had constructed this operation. You must bear in mind that this was an NSC operation and that CIA was in a you call/we haul type mode, that we weren't doing the planning or anything like that, and the NSC had all the contacts. They had the wiring mechanisms through their go-betweens, the Iranian go-betweens, the Israelis.

And so I think I would be content to not rebuild that, that if that mechanism was there to, you know, make use of that. But if someone came to CIA and said take this planeload of TOWs and deliver it to the Tehran airport on such and such a date and we have that wired, we could do that.

MR. EGGLESTON: In fact, in November it had been your proprietary.

THE WITNESS: Yes. The thing that I would bear in mind on this score is the fact that it's conceivable both governments -- and by both governments I mean the Iranians as well as the United States and the Israelis, whatever role they wanted -- wanted to have private parties involved as cutouts so that you didn't have an official government-to-government relationship.

BY MR. BARBADORO: (Resuming)

Q When did you learn that cutouts were to be involved?

A I don't think I learned. I think it didn't bother me. It wasn't something I worried about.

Q If cutouts had not been involved in this operation who would have set the price that Iran would have paid for the TOWs?

A I think we would have asked them to pay whatever it cost the U.S. Government, plus the transportation fees.

Q If the CIA were involved and no private intermediaries were involved and a markup were charged, what would have happened to that markup?

A Any funds in excess of what it cost us, plus expenses, legitimate expenses, would have reverted to the Treasury, the U.S. Treasury.

Q Let me ask you again, so that I'm sure of this, when did you learn that cutouts were going to be involved in this operation?

A Well, I guess I learned that they were used when I watched the hearings. You know, that seems like an asinine answer, but how that transpired wasn't of interest to me, you know. It was just low noise. The point was, we were taking arms and we were getting them over to Iran, and hopefully some hostages would get out.

Q So up until the time you left the CIA you had no idea that there were in fact cutouts used in this operation?

A Oh, I knew that there had to be. Who, I didn't care. I do know that we set up a Swiss bank account for the NSC to use, and if cutouts were involved, I don't think they really needed CIA. Anybody, you know, can get a bank account.

Q At any time when you were with the CIA did you know that General Secord was being used as the cutout in this operation?

A No, not as we know it today, only the reference that I have in my 7 December 85 memo.

Q And that's the only knowledge you had at any time while you were with the CIA that Secord was involved in any way with this operation?

A I'm nodding yes. I'm trying to recall. I have no specific knowledge, really, and it wouldn't have mattered if I did or didn't.

Q Do you know who made the decision to employ cutouts in this operation?

A I assume the NSC did. It wasn't CIA.

Q I'd like to mark as the next exhibit, McMahon 12, a cable dated 25 January 86, Committee number I-566, and it doesn't have a CIIN number.

(The document referred to was marked McMahon Exhibit Number 12 for identification.)

(Pause.)

Have you had a chance to look at that exhibit?

A Yes. That is my cable which I sent to the Director.

Q What prompted you to send that cable?

A One, to advise him that a Finding was signed;

two, that we were to provide intelligence; I guess, three, that I didn't like it and I wanted to make sure that he was aware of what was happening and I wanted confirmation of his knowledge. And that's why I asked that this cable be, delivery be confirmed. I did not get confirmation and the Director had moved on to [redacted] [redacted]

So I sent it again to [redacted] and asked that they please confirm the Director has read this, and then I got confirmation that the Director had read it. But to me this was big enough for his personal attention.

Q Why did you object to providing intelligence information to Iran?

A Because I felt it could give the Iranians an edge against the Iraqis and that would work to the detriment of the United States and the whole balance in the Mideast.

Q It's fair to say your objections were overruled?

A That's a fair assumption.

Q The proposal also involved the shipment of 4,000 TOWs to Iran. In your judgment, what kind of effect on the balance of power could 4,000 TOWs have on the war?

A If they are good shooters, it would be 4,000 tanks.

Q Is it fair to say that could have a significant effect on the balance of power?

A Yes. I think it could. It could have a significant effect in any given battle if they could muster that kind of firepower, but I'm not a military mind and I can't really say.

Q Did you ever discuss this cable with the Director?

A Not per se. When he came back I told him I thought it was a lousy idea to give intelligence, and that kind of leads into Ollie North coming over, I believe it was the next Saturday, the 25th.

Q The cable is dated the 25th of January. Let me first ask you, though, what was the Director's reaction when you discussed your concerns with him?

A Well, I think he was content to see how it played out. I felt that -- and I may be wrong -- but I felt that the Director and I were somewhat of the same mind when it came to Iran. One, we believed it was very important, but where we may have differed is on timing, and I didn't think the time was right at the moment to move forward to opening an initiative -- but who does.

And I think he was prepared to give it a try. And, you know, who is to judge who was right?

Q Tell us about your meeting with Colonel North on the 25th.

A Well, I say then the 25th, and I assume, because I think it was a Saturday, that North came over and his purpose was to get the intelligence that we would offer them. He was, I understand, going over, or some emissary was going over, to meet with Iranians and they wanted to show our bona fides and say here's the kind of, you know, intelligence we can provide you.

And they wanted [redacted] and I raised my concerns, as did Bob Gates, with North and we finally convinced him to accept intelligence which, one, was indeed of the battle front but not in an area that was that important. Additionally, in order to establish bona fides you had to give them information that they already knew was valid, so with our analysts we picked a section of the border -- I believe it was to the north of the fighting -- where we were content they had knowledge of what was going on, and we showed them the Iraqi emplacements and what have you.

And North agreed then to limit it to that, and that's what he took. And, if I'm not mistaken, [redacted] We gave them artist's drawings [redacted] that were annotized, and I may be wrong here, because we had a debate whether or not to give them [redacted] artist's drawings that were annotated. And I think we ended up giving them artist's drawings, but I can't be sure.

Q Did you think it was a mistake to use Ghorbanifar as an intermediary in this transaction?

A Yes, I do. I said that personally to Poindexter. We discussed that at a meeting with Casey. And I believe we also sent him a memo at some point in time saying that we didn't trust Ghorbanifar, that we had sent out several burn notices on him throughout the intelligence community, and I thought it was a bad idea.

Q Do you know why they continued to use Ghorbanifar over your objections and the objections of the other people in the Agency?

A I have no idea. Maybe he was a viable contact because of the nature of his business. Whether he was good, bad or indifferent, he had channels and maybe the Israelis were saying that he was all right. I don't know.

Q Charlie Allen became in effect the case officer for Ghorbanifar. Do you know why that happened and why it wasn't a DO official that took charge of the matter?

A I'm not sure I would characterize him as

Ghorbanifar's case officer. What we were interested in doing in introducing Charlie Allen into the NSC loop as the point of contact for CIA was, one, get it out of the operational channels so that we didn't get sucked into an operation and keep it where it would be in an intelligence and analytical sense. So Charlie was used to provide intelligence background, to vet names and what have you and to help establish the bona fides of the people that the NSC was dealing with.

Q Charlie Allen, though, was Ghorbanifar's point of contact with the Agency, wasn't he?

A You surprise me by asking that. Charlie Allen was Ollie North's and Poindexter's eyes and ears to intelligence and they would often, when they would have meetings with Ghorbanifar, they would get information from Charlie and Charlie traveled overseas in a supporting role, but I don't think that Charlie was ever in a direct mode except Charlie received some photographs at one point in time, and I'm not sure whether it was from Ghorbanifar or someone else.

Q Didn't he have extensive debriefing sessions with Ghorbanifar and didn't he also have numerous telephone conversations with Ghorbanifar?

A I can't say.

Q I'll represent to you that he did, but as far as you know Charlie Allen was not involved in an operational role with Ghorbanifar?

A He should not have been.

MR. BARBADORO: I don't have anything else, if you guys want to go.

MR. EGGLESTON: I don't think I have anything. I have been asking as I have been going along.

MR. LEON: I don't think I have much because I have been doing the same thing.

EXAMINATION

BY MR. LEON:

Q Let me just go back to that one thing that I asked you about before because I know this is something I just want to make sure I've covered adequately for my own mind, and that relates to the impact of Buckley on Casey to the extent that you observed it.

He was kidnapped in March, I guess it was, '84, right, and there had been very shortly after that North was dispatched to start efforts to try to locate Buckley and to get him out of that. For example, were you aware that North was dispatched to try to raise money to ransom Buckley?

A I don't believe that. No, I'm not aware of that.

Q Did Buckley come up in conversations

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frequently between you and the Director?

A Buckley was very much on the forefront of our minds in the sense that, you know, what are they going to do with him, what do they want to get out of Buckley. [redacted] But we didn't -- we didn't agonize over the Buckley situation. I think that was taken with the thought of, you know, that's part of the game of being over there. And Buckley knew what he was going up against. So we felt that that was part of the service and why we would do everything that we could to get him out. We didn't agonize any more over him than we would over any other hostage.

And I have heard the reports that Casey was upset and really in anguish over that, and I say that I never saw any instance where that was the case. He was concerned, but he was concerned in a human sense and a loyal sense but not to the point that he would say the hell with the law, we're going to do this or we're going to do that.

You mentioned North and money. Does that refer to the DEA thing?

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Q No, this is a separate thing I'm referring to -- North being dispatched to arrange for ransom money from Ross Perot, the industrialist.

A I see. Well, that's private funds and we wouldn't get involved in Ross Perot. [redacted] I think that where we threw some caution to the wind was that we were prepared to pay money to anybody that would tell us anything about the hostages. But we did have specific ground rules that we held true to, and they would be reflected in cables going out.

Under no circumstances can we pay any funds for ransom. We'll pay money for intelligence, but we can't pay any money for ransom. And that was a pretty solid policy that we all agreed with.

[redacted]

[redacted]

Q Let's move over to the contra side for a second. There's a couple of things I wanted to ask you about that. In the fall of '85 [redacted] had information with respect to an air strip being put together [redacted] and there is some evidence to indicate that he was aware that [redacted] [redacted] was involved in assisting, let's say, with that air strip [redacted]

Were you aware of that going on?

A No. No, I was not.

Q He would have been reporting that, or should he not have been reporting that to the chief of the Latin American desk?

A No, he shouldn't have reported it. He should have relieved [redacted] on the spot because that was contrary to our instructions.

Q Okay. [redacted] has testified to receiving a KL-43 encryptographic communication device in January of '86 with an eye towards using it to assist in the coordination of information, intelligence information, that was being provided for the supplying of munitions and other supplies to the contras.

Were you aware of that in January of '86?

A No. But I think you have to look at, if I can recall right, in the end of '85 we were given $3 million by Congress to provide communications to provide intelligence to the contras, and if I'm not mistaken at that same time [redacted] but there were strict ground rules that this could be used only for intelligence or for advice that was not battle advice. We couldn't give them, you know, here's how you ought to fight the war routine.

Q Well, these devices were being used for a private communication network between the private benefactors, who were making supply runs to the contra forces on the southern front, between [redacted] and them and their people and Ollie North. And that was the purpose of having this machine.

A Now we're probably talking about two different things. What I'm talking about is what CIA was authorized to supply through government channels. I have learned through the course of these hearings that [redacted] provided North some encryption devices which he gave out to favorite contacts. He gave one to Charlie Allen so he could talk to Charlie Allen at home. He gave one, I guess, to [redacted]

Q [redacted] had one and a guy named Chi-Chi

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Quintero had one down there, and it was being used as a communications device.

A Well, I'm unaware of that.

Q If [redacted] was aware of that as early as that, the first few months of '86, should he have reported that to the Latin American desk? [redacted] wasn't the head of that at that time, I don't think.

A If [redacted] was aware of that, he should have asked the question why because a CIA person was involved in communications that was outside of the CIA loop. He ought to have known the reason for that. And, knowing [redacted] I have total confident in [redacted] and if he was aware of that and didn't do something about it, if he knew that they were doing it to go around the law, I'm confident he would have blown the whistle.

MR. POLGAR: Off the record, please.

(A discussion was held off the record.)

MR. LEON: I think that's all I'm going to go into right now. If I come up with anything else, I'll call or something.

BY MR. BARBADORO: (Resuming)

Q A couple of questions that Mr. Polgar is interested in. Do you know why Colonel North went to Charlie Allen [redacted] on [redacted] and [redacted] as opposed to going directly to [redacted]

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A No. In fact, I had thought he went to [redacted] because I thought that when [redacted] asked me about that down at the IC Staff one day, he said do you know that NSC has tasked us to provide information on these cats, and I said yeah, they are running an operation and I guess that's a legitimate thing to do.

And I suspect that was late in 1985.

Q Do you know why Colonel North chose to involve Charlie Allen in this initiative?

A No, except I think we picked Allen, but we picked him for a reason, that, one, he was an intel guy, but, two, that we knew he was compatible with Ollie North.

Q When you say "we", who do you mean?

A CIA, DDO, myself and the Director and what have you.

Q Do you recall some meeting where it was determined that Charlie Allen should work with Colonel North on this initiative?

A No, other than the name came up and we said yeah, that's a good idea. Get it out of ops. And it was not put to me that North thought of it. I think that it was just thought that Charlie was the NIO for terrorism and therefore the hostage situations fall under the NIO for terrorism and he'd be the right guy to provide that kind of intelligence.

Q Do you remember when that meeting was?

A No. It had to be like November or December '85.

Q Well, Charlie Allen was collecting [redacted] and briefing you [redacted] as early as September '85.

A Yeah, that may be, but I'm not sure -- well, okay. But he could have been. I see what you're saying. I'm not sure that there was a cause and effect from Ollie North and this operation as opposed to guys who had information on terrorists or other dealings. It probably goes back before that, though.

MR. BARBADORO: I have nothing else.

MR. EGGLESTON: Actually, now that I've sat here for a minute I just have a couple.

EXAMINATION

BY MR. EGGLESTON:

Q When you indicated that in the November meeting you had what was called the mini-Finding and there was the instruction not to notify Congress, you indicated in response to Mr. Leon about the hostages and various reasons. Did you have your own sort of mental time frame about how long you thought the delay of notification would last?

A No. I think I figured it would have to last through the hostage negotiation until we got the hostages out. But, you know, someone accused me in the press of writing a CYA memo, and in a sense it looks like a CYA memo. The purpose really in my mind was that if there's a delay in notifying Congress somebody we'd have to notify them and I would like to have that as a mental jogger of what happened, whether it was a month away or two months away.

And I wanted to have that on the record, because I felt in spite of counsel or whatever that we had violated the law, and if I didn't get the Finding signed then I'd have to tell Congress we violated the law anyway. And with the Finding signed I was quite content to hold off until it played out.

Q Was there any discussion between, I guess, November or December 5 of '85 and the time you left the Agency that maybe the time has come to notify Congress, for example, maybe after the February shipments when no hostages came out?

A No. That wasn't in the forefront of my mind as I was leaving. The hostages were still, you know, under wraps, and as far as I knew that operation was still puttering along.

Q Let me ask you a question in a different area that will be my last question. In your experience, was this a greater NSC involvement in an operation than you had seen in your experience?

A It was the only NSC involvement in an operation that I witnessed of this magnitude. Now the NSC has been involved before in what I would call diplomatic initiatives on their own quite apart from the State Department initiatives, but usually when the NSC undertook something they were trespassing on State Department turf, not CIA's turf.

Q ;But in terms of chartering an aircraft and moving people around and stuff?

A I've never heard of that.

Q Did you at the time suggest that it was a prescription for disaster?

A Privately, in my own mind, yes. Again, you have to come back, and I had no recourse. I did not think that the Agency was serving the President well with intelligence on the hostages. Damned if we didn't try, but I knew that the President was very upset over the hostage situation and the hostage families would come in and they'd cry in the Oval Office and they'd pound on his desk, saying what are you doing for my uncle, cousin, brother, what have you.

And he was also well aware that President Carter kind of went through this same thing, so he felt very frustrated that he wasn't accomplishing anything, and he would look to CIA to help solve this, and we weren't solving it, and I could see why, you know, the old saying, somebody do something, and I think State was energized. They worked the diplomatic loop very heavily. [redacted] and I think the NSC finally grabbed the ball and said well, those guys out at the Agency can't hack it, so we'll do it ourselves.

Q One more, and that's to an outside observer it looks as if there was a meeting on December 10 of '85 where things pretty well seemed to be closed down [redacted] but in terms of actually dealing with the initiative through Ghorbanifar and weapons and everything it looks pretty dead.

I know this is us two years later looking back. By January 2 there are CIA lawyers drafting Findings again. And I at least have been unable to come up with an event that I thought justified the sort of getting things back on track.

A Sure, I'll tell you.

Q Was there an event?

A No, it's known as the Christmas vacation. People start going away around the 15th of December for

Christmas leave, so you have Christmas and New Year's off, and then people come back to work. So I think you had a hiatus in government. You know, the President's out at the ranch and all like that, so I think it was the down time over the vacation that looks like no one was interested.

Q So then we get to the New Year and it's time to get the hostages out?

A Yeah, so we're back up. What's first on the agenda?

BY MR. LEON: (Resuming)

Q Just a couple quick things that just occur to me. One is that Neil made the point about and was discussing with you that the hostages were in crying and pounding on the desk and whatever you pointed out.

Did Mr. Casey ever tell you or did anyone else ever tell you that there were people suggesting to the President that he might be better off in making his decisions on these matters if he didn't get so close to the families of the hostages so that the emotional overflow might influence him?

A No. Not if I gauge the President and those who know him. He is very personal and loyal in that sense, and he does take a great compassion with people and that's evident just anytime a serviceman is killed, you know. The President wants to go to their funeral. You know, he is very moved by that.

Q Did you get any sense from Mr. Casey that he thought the President should distance himself a little bit emotionally from the families?

A No.

Q The other thing is this that I'd like to ask you about, Mr. McMahon. There's an impression out that that some people have that there is a group of people as part of a RIG made up of North, [redacted] and --

A Abrams?

Q Yes -- it just slipped out of my mind -- and that [redacted] as the CIA representative on this RIG, was -- that the three of them were acting together to avoid -- going around certain restrictions. This is an impression that's out there, and that [redacted] role in it was to serve in that capacity in such a way to handle the CIA dimension of it, vis-a-vis [redacted] for example, and perhaps in other ways.

Did you see any evidence to indicate that [redacted] in conducting his position while you were there, would deal directly with Mr. Casey on the Nicaraguan-related matters and go around all the levels between himself and Mr. Casey at CIA in order to act secretly only with the knowledge of Mr. Casey?

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A No. I think that would be contrary to [redacted] makeup, and I would be surprised if that was the case. As I said, I had great confidence in [redacted] and in fact was relieved when he took over the Central American Task Force, because I had a feeling that he would take a burden off watchdogging that activity.

And it's not because, you know, anyone else would be dishonest; it's just that when you're running a paramilitary program or fighting a war and you get caught up in the momentum of things and you're not always turning around reading the regs or what have you, but [redacted] is sharp enough to, you know, stay on top of things like that.

And the RIG is not new. The RIG went back, if I remember right, Enders was the first one that composed a meeting of that nature, where he would have the Central American people and later the DDO. And then that was followed by Motley, who had the same thing. And they would at time get~~s~~ action oriented.

And I recall one point in time when I learned that we had [redacted] and all those folks coming in there. And Dewey at the time was representing on the RIG or whatever they called it before then. And that caught me by surprise, so I went in to Casey and said, hey, did you

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authorize this. And he said no. So I had Dewey up and we had some pillow talk together and it turned out that the RIG, you know, thought it was a good idea and it was permissible within the law for us to do it, but I felt that whenever we decid[redacted] that I'd like to know it.

And so we had a fireside chat.

Q When would that have been, roughly?

A Oh, '83, '84 -- something like that.

Q You saw no evidence of Casey dealing directly with [redacted] on these matters?

A No. Bill worked a lot with Dewey. They were very compatible because Casey put a lot of energy into the Central American program, but, you know, if I could characterize[redacted] he tended to stay in channels. I think he would have gone more to --

Q You mean chain of command?

A I think he would have gone more to Clair George. Now he certainly had meetings a lot with Casey bacause Casey would call him in, and I have walked into the room when[redacted] was in there, but there was always Clair George or Juchniewicz there. And, as I said, you know, I think[redacted] a super guy and I had great confidence in him.

Q And you had no knowledge of meetings between just Casey, North and [redacted] just the three of them meeting -- weekends, weeknights?

A No.

MR. LEON: Thank you, Mr. McMahon.

THE WITNESS: Thank you, gentlemen.

(Whereupon, at 4:14 p.m., the taking of the instant deposition ceased.)

____

Signature of the Witness

Subscribed and Sworn to before me this __________ day of ________________________, 1987.

____

Notary Public

My Commission expires: ________________________

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CERTIFICATE OF REPORTER

I, Michal A. Schafer, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by ME; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

Michal Ann Schafer

NOTARY PUBLIC

My Commission expires: 2/28/90

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HSITS 147 /87

DEPOSITION OF JOHN MCMAHON

Wednesday, September 2, 1987

U.S. House of Representatives,

Select Committee to Investigate Covert
Arms Transactions with Iran,

Washington, D.C.

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Committee Hearings

of the

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DEPOSITION OF JOHN MCMAHON

Wednesday, September 2, 1987

U.S. House of Representatives,
Select Committee to Investigate Covert
Arms Transactions with Iran,
Washington, D.C.

The Committee met, pursuant to call at 8:30 a.m., in Room 2203, Rayburn House Office Building, with Richard Leon, House Select Committee, presiding.

Present: On behalf of House Select Committee: Richard Leon, Diane Dornan, and Pat Carome.

On behalf of Senate Select Committee: Paul Barbadoro and Tom Polgar.

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Whereupon,

JOHN MCMAHON

having been first duly sworn, was called as a witness herein, and was examined and testified as follows:

MR. LEON: Let's go on the record, and we will introduce everyone for the record. We have our deponent here, John McMahon. My name is Richard Leon. I am the Deputy Chief Minority Counsel. Seated to my right, Diane Dornan, Associate Staff Member for the Minority House Committee.

Why don't you guys introduce yourself for the record?

MR. BARBARDORO: Paul Barbadoro, Deputy Chief Counsel of the Senate Select Committee, with me is Tom Polgar, one of our investigators.

MR. LEON: Mr. McMahon, just for the formalities, let me hand you the subpoena for your appearance today, and let me note for the record how much we appreciate your willingness to shuffle your busy schedule to come across the country and take part in this continuation of your prior deposition.

You have been sworn in as the record, I am sure, has noted, and we have called you back to follow-up in some areas of inquiry that had initially been posed to you during your initial deposition and some new areas of inquiry that have arisen as a result of the testimony during the course of the public hearings, some of which you may have watched on T.V. or heard about or read about or what have you.

THE WITNESS: Right.

EXAMINATION ON BEHALF OF HOUSE SELECT COMMITTEE

BY MR. LEON:

Q I would like to follow up on some of those areas and amplify on some others. With that introduction, let me start off with one area that I don't believe we have ever had an opportunity to discuss with you, and it did arise during the course of the hearings, and you may have read about or even heard.

That relates to the testimony of Colonel North. At one point in his testimony, he talked about discussions between himself and Director Casey with respect to the possibility of having what I think he referred to as off-the-shelf covert operations capacities. He described what they were thinking about in terms of an operation that would be funded by non-government sources, non U.S. government sources, and would have the capacity to selectively conduct covert operations on behalf of the United States.

Did you happen to hear about that testimony or witness it on T.V. or read about it?

A I think I have heard news clips of that, and I also read accounts of it in the newspaper, but during my tenure I saw no evidence of any such arrangement, nor am I familiar with any discussions.

Casey was very anxious to build a capability outside [redacted] and what have you, but done through [redacted] mechanism, but all part of the Central Intelligence Agency, nothing on the shelf or as described by Colonel North.

Q And when you say he had this desire to set up that kind of organization, let's say, was it your understanding that that would have been an organization consistent with the law?

A Oh, definitely. The agency for years has what I will describe, dabbled, [redacted] principally because we never had extremely effective mechanism for working [redacted] arrangement, though we have tried a number of times over it. But under Casey's tenure, he began to put some teeth in that.

The purpose of this was to have operatives in countries when available [redacted] so it was very different re-establishing [redacted] in a place that we didn't have a mechanism already existing there.

Q Now, would the need for something like that or the perceived need for something like that, Mr. McMahon, been security-related, [redacted] Would that be --

A Yes.

Q -- notivated by a need for heightened security let's say.

A Well, I won't say heightened security. The need was to have available a mechanism to acquire intelligence. [redacted] So we are trying to always start from scratch to reestablish some intelligence collection mechanism.

Q So in a sense it is sort of a desire not to put all your eggs in one basket from an intelligence point of view in a given country.

A Correct.

Q Would you say that the Director's desire along those lines, the former Director's desire along those lines was a reaction or response in part to [redacted]

A I would say so, yes. Definitely.

Q Now, I believe that Colonel North in his testimony relating to this area made reference to the Mossad and this idea, this proposed idea that he and Casey were supposedly discussing we have no independent corroboration of it -- was an outgrowth of discussions with and experience with Mossad.

Were you familiar with the Mossad organization having similar type of operations in any way?

A [redacted]

Q Did you have any knowledge of [redacted] [redacted] having systems by which they could obtain money, methods by which they would obtain money aside from their government appropriations [redacted] to fund their own covert programs?

A [redacted]

Q Because the explanation, as Colonel North, as I recall as Colonel North testified to, the idea was the idea of getting the funds from the sale of the arms to Iran, and then the residue or the profits from it, using that to fund covert programs.

A Yes. I was not familiar with any mechanism such as that.

Q With respect to the time you were there as the Deputy Director at the agency, did you see any need [redacted] for a special type of separate, covert action program to assist there?

A No. [redacted]

Q Did you have any reason to think that Director Casey was frustrated or felt frustrated in any way [redacted] with legal restrictions or financial restrictions that Congress was putting on the agency?

A He may have been frustrated at times, but I don't think over [redacted]

Q Certainly not enough to warrant the desire to have some kind of special program with special funding, for instance?

A No, not at all. I didn't think that was necessary.

[redacted]

Q How about [redacted] during the time period you were deputy director. Did you see any evidence to indicate Director Casey might want to have some special operations program [redacted]

A We tried to deal [redacted] very much up front. [redacted]

Q As I stated before, I don't believe we have any corroborative evidence of Colonel North's testimony on this particular point, and what he did relate were conversations that he had and discussions he had with the Director apparently one on one in this area.

A Casey never related that or even gave a hint to me that anything like that was fermenting in his mind.

Q I guess you have pretty much answered the question I would ask you, which is does that sound like the kind of program or programs that he would be interested in trying to initiate from your experience in dealing with him now? Granted you didn't have any evidence from him directly or any conduct that indicated that.

A No. I saw no evidence of that, Richard.

Q Let me move to a little bit different area here; that is, spend a little bit of time on your relationship when you were the Deputy Director, your relationship with the Director and what you perceived to be the relationship of other people with Director Casey during this time.

First of all, with respect to the conducting of your office as the Deputy Director, was your working relationship with the Director such that you were in regular contact with him on almost a daily basis?

A Definitely.

Q Would you say you had almost had free access to see him whenever you had needed to see him?

A We had just a single door separating our office and that swung in both directions many times during the course of a day.

Q And in divying up your responsibilities between yourself and him, was your scope of jurisdiction, for lack of a better word, agency-wide or was it restricted to certain component parts of the agency?

A Agency-wide and community-wide.

Q And community-wide. Okay. Were there any, during your tenure there as Deputy Director, were there any sections or projects under the umbrella of the agency that the Director took on for himself alone to deal with exclusively?

A I would say one stands out. He didn't do it exclusively. I was certainly knowledgeable what he was doing, but he tried to work [redacted] and we assigned an officer specifically to work that account. [redacted]

Q For intelligence-gathering purposes?

A For intelligence collection purposes. And when Casey got this role in and it looked like there was something to it, we then took that officer and assigned him under the [redacted] office in the agency so that there was adequate day-to-day supervision. It was kind of Casey throwing out the possible opportunities, and then this officer following up on them. And then it was tucked into the fold. But since Casey had [redacted] you know, I was useless. So Casey worked that himself.

Q Would he from time to time discuss with you new possibilities in that area?

A No. But often when he would talk to the officer involved, I would sit in on it.

Q I see.

A So he wasn't trying to exclude me. It was just that I wasn't very helpful in working on it. I can't think of any other project where I would say it was really Casey's to the exclusion of me. I just don't think it existed.

Q Were there any areas substantively that there was an unofficial understanding between the two of you that he would pursue, besides the one you have just described, that he would pursue without checking with you or bringing you up to date on but would deal directly with the personnel in the agency at a lower level than you?

A He did that all the time. Often he would call an officer or an analyst directly, but it wasn't an exclusion. It was just that he wanted an answer or wanted to find out what was going on.

Q Short circuit the chain of command so to speak.

A Sure.

Q It wasn't uncommon for him to, if he was interested in something, to go right to, for example [redacted] in the Central American area?

A Right or talk to an analyst or talk to an NIO, or, you know, to go get an answer.

Q Now, with regard to, let's say, Central America in general and the Latin American Division, there, was it your experience that you were being kept up to date on the developments in those areas vis-a-vis the Latin American Division, the Central American Task Force?

A I think so. If I wasn't up to date, it was my defficiency, not the mechanism's deficiency.

Q Did you have any instances that you can recall where new projects were being undertaken or new policies were being initiated in those areas at the direction of or suggestion of Director Casey and you were not being informed about it or you were not being told about?

A No. The only occasion of that nature that I recall was [redacted] which was permissible. It was legal.

Q Roughly when would that have been?

A Oh, I would probabaly say it was in the 1983-1984 time frame. And the direction for that came out of what you now know is the RIG, the Central American Interagency Group.

Q Was [redacted] sitting on that at the time?

A No. Dewey Clarridge was sitting on that. I went in and asked Casey if he was aware of that, and he said no. So I called Dewey up and sort of alluded to him that RIG wasn't running CIA; that Casey and I were -- that [redacted] unless we knew about it.

Q Did that get straightened out?

A I think so.

Q There were no instances of that that you know of?

A Not that I am aware of.

Q When you brought that to the Director's attention did he back you completely on that?

A Oh, yes. The Director never challenged me if I went to him and said I don't think we ought to do that, or we are missing the boat here. He was always very very supportive.

Q Was he supportive of the idea of chain of command within the agency as a general rule?

A I don't think he was a disciple of the chain of command. He went to where the answer was and he relied on the person that he was talking to to make sure that the chain of command was duly informed.

Q But in terms of getting the proper authorizations, he was in favor of the senior level people who were empowered to make those decisions to actually make them.

A He wouldn't exclude them, no. But I mean again if he wanted an answer or wanted to cause something to happen, he would go to where the action was to cause that to happen.

Q How about the other way around? Would he expect--if he wasn't the initiator of the action, let's say, would he expect those below him to follow the chain of command to insure those above them, who had the authority, actually exercised it?

A I would think so, but I wouldn't say that was very high on his list of things that he ought to worry about.

Q You were more concerned with that as the Deputy Director?

A Indeed I was.

Q In those instances where you thought the chain wasn't being complied with and brought it to his attention, he backed you on that?

A I don't think I ever approached it in that context. I always made sure that if I knew something that the individual involved, like a deputy director, would know about it. But it wasn't a big deal.

Q It wasn't a big deal. Now, how about with respect to covert actions in general? I believe you have testified -- and correct me if I am wrong -- that you might personally not have been as inclined toward covert action as other people might have been in the agency and indeed, maybe even the Director, himself. Would that be a fair statement?

A I think that is a fair statement, but I think you have to appreciate where I was coming from on covert actions. I felt that the agency activities had to be complementary or supplemental to a policy. It had to work within that policy. You just couldn't have it hanging off to the side by itself.

Further, that there is a limit to what the agency could do, and I did not want to undertake covert actions for the sake of covert actions to give the feeling that you are doing something. If it didn't have a chance for success, then I didn't think it was worth a candle. And in the case of Central America, which is probably where a lot of folks would say I was wimpish, I felt that the South, the Central American covert action got too big for us. It began to exceed what I felt was our control of the situation, and it was also so open that I felt if this is the U.S. policy, and we are supporting it, then let's go in and do it right.

Don't try to do it through contras or anything else.

Q Did you sense that your desire to curtail covert action by the agency in Central America created a friction between yourself and the Director as to the conducting of the --

A Not a friction, but once he asked me to go [redacted] with him just so I could see first hand the threats down there, which I did. But I didn't come away, you know, changing my mind as to what ought to be done down there. I think the U.S. has to take action in Central America. We can't let Nicaragua proceed the way it is proceeding.

But I don't think the answer is try to hang a monkey on CIA and say go solve this with some contras.

Q Did you find any instances where your desire to curtail covert action resulted in the Director's sponsoring or initiation of covert action behind your back without your knowledge?

A No. I never saw any evidence of that.

Q Did you find or have any experience or find any evidence to indicate that your differences of opinions with regard to the need for and the use of covert action resulted in him dealing directly more frequently with, let's say, Clair George, let's say, for example, with regard to covert action, cutting you out so to speak?

A No. I never felt cut out of anything. If I wasn't into something up to my arm pits, it is because I decided not to lay into it.

Q With regard to the dealings between -- to the extent we know about them -- dealings between Colonel North and Director Casey there has been lots of testimony -- you might have read about some, heard some other on the T.V., radio, of meetings, regular meetings between Director Casey and Colonel North.

I believe you even testified in your last deposition that you aren't aware that they were having any kind of regular meetings whatsoever.

A That is right.

Q Assuming that they were having these kinds of meetings, and since you weren't aware of them, is there any explanation you can think of as to why it would be that the Director would have not brought you up to speed on that or kept you informed of his meetings with Colonel North?

A My opinion, having learned what I have read in the papers and the testimony, is that the Director was not operating as Director of Central Intelligence, but he was operating as an individual who knew where the power and money was in the United States.

Q When he dealt with Colonel North?

A When he dealt with Colonel North and where Colonel North, in his efforts to raise money for the contras privately could go to hit these people up. Casey knew, you know, everybody in the United States. He was a source of knowledge. And I would say that if he had all these meetings that it was probably in that context. It was not as an official of CIA, but as a guy who knows where money is in the United States.

Q Now, what you just stated is assumption on your part.

A That is right.

Q It is not based on any knowledge that you have per se.

A No, no. In fact, if I can recall right, Richard, I only remember seeing North's name on the Director's schedule once in the four years that I was there as deputy director. And if he did have those meetings, he had them when he was down EOB. They were not on his schedule. He walked in and dropped in on him.

Q How about Saturday meetings? Were there some Saturdays that you were in the office and the Director was also in his office?

A Yes, but Colonel North wasn't there.

Q Okay.

A No. It could be very easy for the Director to see North because the Director had an office in EOB. All he had to do was walk down the hall.

Q Exactly. So it would be your expectation or surmise that when Casey was dealing with North it was not with his Director's hat on, but more of a private citizen type hat on?

A I believe so.

Q How would you think Director Casey would rectify his desire to scrupulously abide by the law, the Boland Amendment and other laws that may apply in his dealing with Colonel North with regard to Nicaragua?

Do you think he would be uneasy about that?

A I don't know how to answer that. I do have total confidence that Casey was a very shrewd lawyer, and he would never put himself in the position where he would be cross-wise with the law. He might nudge it and push it and stretch it as far as he could --

Q Without breaking it?

A But not break it.

Q Was it always your sense in dealing with him that he wanted the agency at all times to stay within the boundaries of the law?

A I never saw any indication that he wanted anything else but that.

Q Now, there has been, if I could move to a different topic area, there has been some testimony, there have been some stories, suggesting that the agency at different points in time under Director Casey's tenure as Director and under tenure as Deputy Director, was engaged in cooking up intelligence is one way to put it. That is kind of a slang way of putting it. Another way would be modifying or adjusting intelligence information in order to achieve certain results. These accusations come up in terms of modifying intelligence in order to fit policy objectives.

I wanted to ask you a few questions in that area with respect to your experience at the agency in evaluating the intelligence work of those under you. First of all, during your term as Deputy Director, did you have occasion to learn that intelligence produced by those under you was in any way misstated in order to accomplish some form of a policy objective?

A None whatsoever, and I just don't see that happening in CIA. If one appreciates how an analyst works, there is a certain arrogance and pride in their analysis and they are very independent people. They will argue with each other as to their position. They would argue with Casey. They would argue with anyone that disagreed with them. And if you look at the intelligence process and how finished intelligence is ground out, there is never a uniform agreement that, boy, this is the perfect way to say that.

A lot of it is a compromise analysis.

Q It is rarely black and white.

A It is rarely black and white, and that is the beauty of an analysis, because if you had all the facts, then you wouldn't need the analysis. And there were some notable cases that I think demonstrate the problem.

One came from [redacted] National intelligence estimate. You must remember that this is all members of the intelligence community, not just CIA.

Q Would you state for the record some of the other members of the intelligence community?

A Sure. Intelligence community is composed of INR from the Department of State, DIA from Defense, the Army, Navy, Air Force intelligence organization.

Q [redacted]

A [redacted] the FBI and the intelligence part of the Department of Energy, the Department of Commerce and they sit and deliberate on drafts that have been pulled together by the National Intelligence Officer with representatives from all of those organizations contributing to the piece or passing upon the deafts.

In the case of [redacted] draft, the NIO who left the agency apparently in somewhat disagreement, went public and made a statement that Casey was cooking a [redacted] estimate. And the House Permanent Select Committee decided to look at that, and--

Q Intelligence Committee?

A Right, Intelligence Committee. And they came in and they looked at the fact that we had -- there were five drafts within the NIO process before it even got to Casey and myself. So there was great disagreement within the community to start with. Then when we went to the National Foreign Intelligence Board where all the principals of those agencies I cited earlier were located, there was disagreement there and we had what is a very rare occasion, two meetings of the board on that one subject.

So there was still disagreement on it and finally it was published, and everyone agreed to the publication. And the HPSCI said as far as they were concerned this was clean as a hound's tooth as far as trying to cook the intelligence. So I just think that was a bum rap. I also took some umbrage at George Shultz' comments on intelligence.

The agency just doesn't cook intelligence. Now Casey may have his own opinions, and he is very forceful in challenging analysts on that, but you have to remember that opinion didn't necessarily come from policy. It came from friends and people who have knowledge in those countries, who operate in those countries, businessmen who write Casey personal letters and say, "Hey, Bill, you ought to look into what is happening here.'' So he generated a lot of ideas out of this personal flow of mail coming into him.

Q So in a sense, correct me if I am wrong, when the Director would read an analytical evaluation of intelligence, when he would read it, he would be passing it through the prism of his own experiences and his special sources of intelligence --

A Right.

Q --that he would bring to bear to it and that might result in him having a conflicting analysis of the same facts.

A Right, right.

Q In those instances where that would happen, however, would he force or direct them to change their analysis of those facts?

A No. What we would do is put in the famous footnotes that you see in the National Intelligence Estimates or we would put it some feel -- others say or on the other hand this is a possibility, so that people reading the intelligence estimate realized that there isn't a single viewpoint; that others have some disagreement or another opinion.

Q Were there any instances that you can think back to, Mr. McMahon, where Director Casey's feelings or analysis of facts were so well known ahead of time that the intelligence analysts there were tailoring their opinions in order to please their boss, so to speak?

A No, I don't think so. I think there was enough discussion and arguments that would suggest that no one was intimidated by Casey's opinion.

Q And he welcomed the free flow?

A He welcomed it. He loved it. He was like a fire horse going hearing the bell. He liked to have a good, animated discussion.

Q So there was a free flow of ideas with regard to an analysis of intelligence while you were there under him?

A Yes, definitely. And we wouldn't have it any other way. I think I would be derelict in my duty if I let it happen any other way.

Q It certainly is in the Jesuitical tradition, isn't it?

A Correct.

Q Let me be a little more specific on this, having talked about it in general now. With regard to Iran intelligence, there has been some suggestion in the testimony of some, perhaps Secretary Shultz, one would say, and others, that the agency's intelligence reports with regard to Iran that were being provided to the NSC, the President, were being skewed or misstated in some way in order to encourage the arms initiative with Iran or to bolster the arms initiative with Iran, which Director Casey was in favor of as opposed to Secretaries Shultz and Weinberger. Did you see any evidence to indicate that the agency's intelligence with regard to Iran during that time period, '85 and early '86, was being tailored in any way in order to support the arms initiative?

A No, and I don't think the record will substantiate that statement. I think we knew Iran for what it was. We knew that they were terrorists. Casey made speeches in '85 and '86 about Iran as a terrorist organization, public speeches how they were sponsoring terrorism as a country. I think the thought of moderates in Iran probably was prompted by the Israelies and not by us.

If there were any in the agency who thought they were moderates, it was because they adopted that INTEL coming in. But I don't think many people in the agency thought Iran was anything but trouble, and I certainly spoke to that fact, and I thought I was representing Casey as well as the agency. The document that causes the biggest trouble was kind of a think piece that Graham Fuller put out.

Q Was that in '85?

A That was in '85. And he was expressing concern about the U.S. having no leverage in Iran whatsoever and he felt with the passing of Khomeini the only influence in Iran would come from the Soviets; that they were in far better position than certainly we were. But he also thought that it would be different for the U.S. to do anything there and suggested that we encourage our Western allies to try and develop a dialogue with Iran.

That was typical of Graham. He would kind of reach out trying to think of things that were really the unthinkable. I thought that he was ahead of his time with it. What probably caused the trouble is Casey was enamored with this thought and floated it down to the NSC and to State and I hope that is what George Shultz was talking about, because I can't think of anything else that would skew it.

Q How about with regard to the Iran/Iraq war? Were you aware of any instances where the status of the war between those two countries as to who was winning or who was in a more favorable position was being shaded in any way in order to influence how we would deal with Iran?

A No. [redacted]

[redacted]

Q And certainly there was no evidence to indicate that we were misstating our intelligence or shading our analysis.

A It wouldn't happen. That is just so god-damn outrageous I can't stand it. That is just so damn false and I think George Shultz got away with murder on that one. In fact, I asked the Director why the hell he didn't challenge Shultz on that. He said --

Q Director Webster?

A Yes. He said he asked Shultz to point out where is the case of this happening. And I guess he hasn't heard from Shultz yet.

Q Well, we will all be looking forward to hearing bap

the response, I'm sure. How about shifting to the other point in the globe that this committee has been focusing on in the area of Nicaragua, Central America? Were there instances, if you can recall any, during your tenure as Deputy Director where you were concerned about the accuracies and the fairness of the intelligence analysis that was being provided by the agency to the NSC and the President about events down in Nicaragua and Central America?

end bap

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:30 a.m.

THE WITNESS: No, because I don't think it mattered what was going on there. There was enough acquired through the embassy and people who traveled there that events in Nicaragua, you know, weren't very much of a secret, and whether the contras were doing things or not doing things didn't matter.

What did matter was the fact we knew the Soviets were sending in a great deal of supplies through East European countries and through the Cubans, and that we knew for sure. And we could see the hardware end up on the ground. So the fact the Soviets were building up in Nicaragua was no big secret. And the political nuances, saying what to whom in Nicaragua, really didn't matter.

BY MR. LEON:

Q You weren't aware of any instances where we falsified any intelligence or purposely skewed our intelligence in order to get greater congressional support, let's say, for funding for the contras or anything along those lines?

A No. In fact, there was so much debate on both sides, we had a hard enough time competing with the flow of news on the evils of what the contras were doing. We were putting out brush fires, saying the contras weren't murdering little children and things like that. There was a war going on, and obviously you have events you wouldn't be proud of.

There was not a policy, there was not an intent to the contras movement.

Q There have been allegations with regard to intelligence misstatements regarding troop strength. Were you aware of any instances while you were there where the troop strength of the Sandinistas were being exaggerated or vice versa, the contras were being exaggerated, in order to get more funding out of Congress or for any other objective to support the policy of the administration?

A No. I think we had a pretty good handle on those under arms in active military in Nicaragua, and we always pegged that around [redacted]category. Where the numbers might have been a little softer is in the militia, which we also said was around [redacted]

But there was never any intent to cook the numbers at all. We didn't have to. We didn't have to. We were dealing with really, in the initial times, a handful of contras.

Q Part of the reason I ask about these things is because there are impressions people form out there, and the accuracy of them is important to debunk them if they are not accurate, that the people in the agency serving under Director Casey in the lower levels in the intelligence gathering and analysis area knew he felt strongly to be in favor of the contra movement and policies of the administration to support the contras, and there is this theory in some quarters out there, because they knew that they adjusted or tailored their intelligence analysis and intelligence reporting in order to give him the ammunition, so to speak, to work the administration's will on Capitol Hill; and if I understand you correctly, you are saying there was no evidence you are aware of?

A There is no way. In fact, if you held a lot of those analysts up by the heels, I bet you would find more of them against the contra program than for it. There is no way they are going to serve Casey something on a platter for him to use that way.

And also you must bear in mind we prepared a number of national intelligence estimates and special estimates on Central America, and that included community participation, including the Department of State. So if there is any cooking involved, I think you have to lay it at everyone's door-steps, not Casey's or CIA's. It included the Department of State.

Q Let me move to a different area, if I could, that relates to the much-discussed and sometimes much mythified area of mining of the harbors in Nicaragua and the degree to which the agency notified the appropriate committees in Congress with regard to that mining of those harbors.

There has been testimony during the hearings that you may be familiar with, you may have observed, regarding this notice question, and some questions have arisen with regard to it, and I wanted to ask you some questions in that area. You were Deputy Director, were you not, during that time period --

A Indeed.

Q -- prior to and during the incidents in question?

A Right.

Q During the questioning of Mr. McFarlane, I believe, there was some reference by Congressman Hyde to the statements reported in the papers of various members of the committees with regard to the degree to which they were notified.

I would like to point a few of those out to you and get your reaction to them, if I could.

A Okay.

Q There was a, apparently there were meetings on March 8 and March 13 of 1985, prior to the mining of the harbors -- 1984, excuse me, 1984 -- with the Intelligence Committees, and there was some dispute as to the extent to which the Senators and Congressmen felt they had been notified adequately.

Patrick Leahy of Vermont at one point, for example, contended that he was fully informed with regard to the mining of the harbors. He said that many others were also fully informed and that they voted for the covert aid in the Senate, but because of the public outcry against the mining, switched their position later on.

By contrast, Senator Moynihan claimed that he hadn't been adequately notified with regard to the mining of the harbors, that the references to that as a proposed covert action were minimal during the time period. Senator Biden, who was present during the various briefings, as was pointed out in an article in the Washington Post, stated that he had his committee staff on April 3 look for further information, and his staff gave him a lengthy briefing with regard to the CIA initiative.

Chairman Boland, Chairman of the House Intelligence Committee, was reported as saying the CIA had informed his group on January 31 about the mining, and he had no complaints about the CIA requirements even though he opposes the covert aid. There has been a difference of opinion reported as to the extent to which there is adequate notice.

Let me ask you, as someone who was involved in the notice process, can you give us a little background on it?

A I was not personally involved in any of the hearings where this was discussed, but we did brief the HPSCI on the 31st of January. We tried to get to the Senate, but for some reason the Select Committee couldn't meet right away. I think it was on the 16th of February we mentioned that we wanted to brief the Senate, and they picked February 20 as a date for us to come down and brief them. They then changed that to the 28th, because they wanted to bring Shultz in and have him discuss Central American policy so that the [redacted]

Then at the last minute, Shultz couldn't make it, and so March 8 was then picked as the date, and on March 8, Casey and Shultz went down. Casey gave kind of an order of battle, here is what is going on in Nicaragua, [redacted] mining the harbors at Puerto Cabezas, Punto Huete, and one other one, I forget. If I am not mistaken, a notice was also issued by the FDN to all mariners, it is a public notice, saying we mine these harbors. I can't attest to that, but I was told the FDN did that.

Pat Leahy said, "I don't like this mining, I want to hear more about it." So some of our [redacted] people went down and briefed Senator Leahy [redacted] No one thought they could actually sink a ship.

On March 11, we heard from the Appropriations

Committee in the Senate saying our colleagues tell us [redacted] come tell us about it. So the agency sent some information down to brief the Appropriations Committee, and, if I am not mistaken, if my memory serves me right, there were 13 Senators of the Appropriations Committee at that briefing, and that took place on the 12th.

On the 13th, Casey was back to the Senate Select Committee and said --

Q On Intelligence?

A Intelligence. -- and said "I want to remind you [redacted] mining the harbors", and went through that again. Still not a word. We then, on March 28, got a letter from Senator Pell in Foreign Relations saying, "Tell me about this mining", so we prepared a written response, sent it to Senator Pell through Barry Goldwater, who was then Chairman of the Senate Select Committee on Intelligence. Not much happened until the latter part of the first week, in April, when there was a great deal of furor in the press, which generated in Europe, about the mining of the harbors, was picked up by the Post and Times here and a lot of noise, and suddenly amnesia struck Capitol Hill, no one remembered hearing about the mining.

Barry Goldwater sent a letter to Casey telling him he was pissed. When I got this letter, I went in to Casey and said, "What the hell is he talking about, where has he been for the last two months?" So we called down to see Barry Goldwater, and he had left to go to Taiwan.

So we went down to see Pat Moynihan, who was then Vice Chairman. It was a Friday afternoon, we had a meeting, I think, scheduled at 6:15. We got in there, and we were held up, we were told Pat had press in his office. So after about 15 minutes, they left, and we went in. We said to Pat, you know, "We are just amazed about this letter from Barry Goldwater." He said, "Well, you know, that's how it goes," and he spoke about trust, and we talked about everything else.

We found out on Sunday that while we sat outside Pat Moynihan's office is when he had the press in to resign as Vice Chairman, because he hadn't heard about the mining.

Q He didn't tell you that when you came in right afterwards?

A No.

Q Did he --

A Then when Barry Goldwater came back, Casey confronted him at a hearing, and Barry -- and Casey showed him then the transcript from the hearings on the 8th and on the 13th of March. and Barry said, "You know, I don't know, I just don't remember." And it's my understanding that Barry wanted to send a letter of apology to the agency but was urged not to do so -- because the Senate apologizes to no one.

Q So as far as you know, based on your first-hand experience and based on your studying of the records as you had them back then, the House and the Senate were both informed before any mining took place and while it was taking place.

A You said a key word. I can't say if it was before, but our intent was to notify them as soon as [redacted] When the mines first hit the water and when we got around talking to the Senate, I just don't recall.

Q But certainly contemporaneous with it.

A Right. The intent was to tell them, and so, you know, it wasn't an issue as far as we were concerned until all the noise happened.

MS. DORNAN: Do you have any complaints from the House side about not being informed?

THE WITNESS: None whatsoever. The House kind of chided the Senate a bit, and I think that exacerbated the situation somewhat.

I will give you another piece of hearsay. You are probably in a better position to check the record than I. But I understand during the first week in April the Senate Select Committee on Intelligence was asked to vote upon a resolution or a proposal introduced by a Senator regarding

Central America, and they voted against it 14 to 1, and the one who voted for it, or against it, and I don't know how the resolution was phrased, it is like those voting statements, the one who voted against it was Pat Leahy, because he said he didn't like the mining.

So the rest of the committee voted for it in spite of the fact they knew about the mining. That's hearsay. You will have to check that yourselves.

But as far as I am concerned, there was no intent by the agency to keep the mining of the harbors from the committees. We did everything we possibly could to tell them about it and tell them about it in a timely fashion.

BY MR. LEON:

Q In fact, you did tell them about it.

A In fact, we did tell them about it.

Q Both House and Senate?

A Right.

Q And the Director was personally involved in doing it.

A The Director personally was involved.

Q When you went in to see Senator Moynihan after the press left that day in early April, did he criticize you personally -- not you personally, but the agency?

A No. The only word I remember him saying -- now, in retrospect, we should have followed up on it -- he said, "It's always an element of trust" or "There's always a great deal of trust involved", something like that. But he gave us no indication that he was resigning or that he was particularly ticked off about anything.

Q It is interesting to note that on April 17, 1984, the Washington Post ran an editorial relating to Senator Moynihan's announced resigning from the Intelligence Committee in which it discussed his doing that, and I will read a portion of that to you here. "When a month ago the Central Intelligence Agency briefed the Senate Select Committee on harboring mining operations in Nicaragua, Senator Daniel Patrick Moynihan was snoozing or otherwise occupied, and the significance of the briefing sped past him unobserved. Now, in a characteristic piece of stagecraft, the Senator has resigned as Vice Chairman of the Committee to make a point, as he puts it. What point? That during briefings on important espionage operations, members of the Select Committee on Intelligence ought to stay awake? No, this is not Senator Moynihan's point exactly. His point is that the Committee was not properly briefed.

"If that is so, shall we examine the facts then? Let's. CIA Director William Casey met with the Committee last month, on March 8 and 13, to be precise. At both meetings transcripts show Mr. Casey mentioned the harbor mining operation. 'Yes', complained Senator Moynihan, 'but

Mr. Casey was too brief,' encapsulating the mining operation in a single sentence of only 27 words. All right, Mr. Casey might have been more expansive, but then Mr. Moynihan might have been more inquisitive, as inquisitive as Senator Biden, Jr., the Delaware Democrat.

"Intrigued, Senator Biden asked his staff committee to find out what was going on. The staff, brought up to speed by the CIA, briefed Senator Biden in detail. Senator Biden shared this information with other Senators, though not for some reason with Senator Moynihan.

"We put it to you: Does this suggest the CIA was holding back information? Or does it suggest instead that Senator Moynihan, entrusted with oversight of the CIA, performed this important duty indifferently, missed out on a telling disclosure, found himself looking rather foolish, and so resigned his semi-exalted office to save face?"

That is an editorial from the Washington Post about the CIA's involvement there.

A I thought we were very straightforward with them.

Q I bring that up because this is one of those myths that continues to endure.

A Yes.

Q And you were one of the people during that very time period who was privy to what was going on, and it is important that the record reflects what accurately took place and what the agency's intent and desire and actions were to ensure that Congress was properly notified.

A Right.

Q Is there anything else on that subject you would want to add at this point before I move on to something else?

A No, I think that wraps it up as far as I know.

MR. BARBADORO: Before you go on, I want to put on the record, I don't intend to ask Mr. McMahon any questions about this area, but I would like, and I am sure you wouldn't object since this portion of the questioning tends to be critical of Senator Moynihan, particularly the reading of that editorial, that I would like, after the deposition is transcribed, to make this portion of it available to Senator Moynihan and give him an opportunity to respond if he so desires before we make public use of the deposition.

MR. LEON: I have no control over that, Paul.

MR. BARBADORO: You wouldn't object if I did that?

MR. LEON: I would have to refer you to whatever the rules are of the House Committee, because I am not even certain what they are.

MR. BARBADORO: Assuming that the rules don't prohibit it, that is what I intend to do.

MR. LEON: Yes, assuming the rules don't prohibit it, I would have no problem. I would note for the record that which I read just now is an excerpt from the printed records of our hearings, and it was read into the record during the hearings, the public sessions of the questioning of Mr. McFarlane.

MR. BARBADORO: I understand. I am not suggesting you made it up. I want to give Senator Moynihan an opportunity to respond to something that tends to be critical of him before we disclose the deposition to the public.

MR. LEON: When would he respond? Not in a deposition.

MR. BARBADORO: I will leave it at that.

MR. LEON: Like I say, I am prepared to abide by whatever the rules are. I have no control over that. If the rules of the committee permit him to see a deposition of this committee that is classified, code word, whatever, and the committee so votes that he is entitled to do so, then that is the will of the committee.

BY MR. LEON:

Q One last topic I would like to ask you a few questions on, Mr. McMahon, before I turn it over to my colleague, Ms. Dornan, is the area of [redacted] I just wanted to follow up on a few things there with regard to the trip that you -- you took one trip I believe, one trip [redacted] during this timeframe, and there was also a trip by Mr. Clarridge [redacted] I wanted to ask you a few questions in that area with regard to those.

First of all, with regard to your own testimony, you have previously testified, I believe, that while on a trip [redacted] or you were about to make a trip [redacted] it was suggested to you that perhaps you should suggest to [redacted] that certain weapons that they had in their possession and control might be sent to, provided to the Nicaraguan Opposition. Do you recall that?

A Yes.

Q Now, that suggestion was coming to you from who at the agency?

A Well, it came from Headquarters. I think I was overseas when the cable came over. I was in [redacted]

I planned to go [redacted]. I think I was [redacted] when I received a cable, I didn't recall this until I read it in a cable a few weeks ago, asking me to raise the issue of availability of arms with [redacted]

As it turned out, he wasn't available for a meeting, and so nothing transpired. But when I came home in, or looked into that a little further, I found out that there was some generation of interest in the agency to have [redacted] arms [redacted] to the contras, and I thought that was a non-starter --

Q What do you mean by that?

A I just didn't think it was a good idea.

Q Why?

A Because [redacted] And I talked to the Director about it, and he agreed. So he backed off of the thought of doing that.

[redacted] Dewey Clarridge, I think, had planned a trip to go over to talk about the Nicaraguan situation, and I told him to stay away from talking [redacted]

Nothing ever came of that, I don't think the [redacted] were really keen on getting involved [redacted]

Q Just to be clear about this, with regard to Mr. Clarridge, when he made his trip, you had directed him specifically to avoid requesting that those arms be sent or that any money be solicited from them for the benefit of the contras?

A Yes. Money was never an issue. We never even talked about it.

Q So during your tenure as Deputy Director, you were unaware of any solicitations of money from [redacted] to support the contras as well as any requests by the agency or agency personnel to [redacted] to give munitions and weapons to the contras?

A Right.

Q And if either of those happened, it was without your knowledge and without your blessing.

A Right.

Q Let me finish, and then I will turn it over to Ms. Dornan, with one last question, not a specific factual question, but a more general type of question here. I don't know if you have read [redacted] unclassified testimony yet.

A No, I didn't. I stopped by the agency last night to see if anyone said anything untoward about me, but I didn't find anything.

Q Let me --

A I heard that he kind of came unglued a bit.

Q Let me point out one small aspect of something he said and see if you want to comment on it, or whatever.

I am kind of putting it in shorthand terms, but I will expand on it if it is not clear to you what he was saying. At different points [redacted] testified about being in a situation he characterized as a nutcracker situation where he was caught in a no-win situation; in essence, the agency itself also, not just himself personally, caught between an administration and Congress that had diametrically opposed intentions with regard to Central America, and the agency was kind of in the middle, so to speak, and he was sort of in the middle in trying to assist the contras under the restrictions, problems that the Boland Amendment provided with regard to supporting and assisting the contras, it made for great friction in difficult situations. Do you have any comment about that?

A He may feel that way, but that's the nature of the beast; we are called upon by the administration to perform a covert action, we get a finding, we carry it out, the Congress doesn't like it, they change it or legislate changes and we are caught bound by law, but an administration that still wants to move forward but, you know, that happens all the time.

I think that's life in CIA. And it's like being a fireman and saying you don't like to go to fires. We get caught in those things all the time. So I could see why he might feel, being a very conscientious officer, here he is trying to run a program and people start yanking his chain a bit and say "You can't do this and can't do that".

We then build up, you know, our lobbying efforts and get Congress to change their mind a little bit or all the way, but that is life.

Q Did you find him to be an officer who was trying to abide by the law?

A You bet your life. I have the highest confidence in [redacted]

Q You never had any evidence to indicate he was trying to skirt the law in any way?

A No. I had a lot of evidence that he was a well-regarded professional officer, and I doubt if [redacted] would do anything to violate the law.

Q One last thing that has just occurred to me I would like to ask you about is that November, 1985 finding that you sent over, the agency sent over to the new NSC Adviser, Admiral Poindexter. It just occurred to me I wanted to ask you something about that. As I recall your testimony the last time, you had sent him over the draft finding of Mr. Sporkin, the General Counsel of the CIA's Office had put together, and I remember you testifying you were constantly keeping in touch with him to find out if it had been signed by the President, and finally in early December, he notified you it had been signed by the President. Is that accurate so far?

A Almost. I think McFarlane was still the National Security Adviser up to December 4.

Q Right.

A So when the finding went down, McFarlane was still there.

Q Okay.

A But I believe the Director took it down to Poindexter, that is my understanding of how it got down there.

Q Prior to December 4?

A It was like the 26th, 27th, something like that.

Q Right.

A And both the Director and I followed up trying to get a status report on the finding, because we hadn't heard, didn't get a copy back. And finally on December 5, I recall in this 7 December memo where I said we were advised, and unfortunately I wasn't clever enough to say how we were advised. It could have been the Director told me, it could have been Poindexter told me at 7:30 on the 5th and gave me a telephone call, or it could have come up in a meeting that I had with a number of analysts and operations people on Iran.

But how and who informed us, I just don't know except that we were informed. I was still a little uneasy because we didn't get a copy back. And all during December, I would talk to Claire George, and I would say, when he was going down to have a meeting with Poindexter on any given subject, "Find out where the finding is".

I also asked --

Q That is what I wanted to ask you about. How about getting a copy of that finding?

A Right.

Q You never got a copy.

A We never got a copy.

Q Of the signed finding.

A Of the signed finding, and when I came back here for I think the first session I had with the Senate Select Committee, after the Iran situation became public, they had a hearing, and I came back for that, I stopped by our General Counsel's office in Headquarters, and they informed me then that that finding was never signed. Although Charlie Allen told me that North told him that the only copy, the only copy of the signed finding was in his safe.

Q His, being North?

A He being North. I think Bernie McCufka, a lawyer, overheard that conversation when North told Allen that. I was of the opinion from the General Counsel that it was never signed afterwards, and I was quite surprised to hear Poindexter say it was signed and that he shredded it.

Q So when you were being told it hadn't been signed, you were being told that by people who wouldn't necessarily have known whether that was true or not?

A That is right.

Q All they knew was they never received a copy of the finding after it had been signed.

A Correct.

Q That was unusual, as I recall you testifying that had never in your experience happened before?

A I don't recall another instance.

Q Throughout December of 1985, you were constantly attempting to get the NSC to give you a xeroxed copy of the finding that was signed.

A Right. Or at least get confirmation that it was signed.

Q Did it ever reach the point you talked to Poindexter again and said, "How about a xeroxed copy of that finding?"

A No. In retrospect, I have asked why didn't I, and the only conclusion I can come to is we went into the Christmas Holiday season, and everything stood down for a few weeks, then the next thing you know we are into January.

Q Do you recall ever getting a response to these inquiries about getting a xeroxed copy of the finding signed, do you recall ever getting a response along the lines of, well, we are not happy with the condition it is in now, we are going to redraft it?

A No. The only inference that -- I can't recall the specifics, but the only feeling I have is that the NSC was so up tight over the security of the hostage situation that they were holding this very close.

Q And, therefore, you have no recollection of ever being informed that there was a desire to have that November 25 finding that you sent down to be signed redrafted to different language that would more fully encapsulate the policies that underlie the stance in that shipment from Israel to Iran?

A Nothing whatsoever. In fact, I was -- used is the wrong word -- maybe perplexed by Admiral Poindexter's testimony when he kept saying he didn't like the finding, and he was asked, "Why did you have the President sign it?" He said, "Because McFarlane kept pestering me." It wasn't my pestering. The finding reflected a historical event, the event of that whole situation turned out to be arms for hostages. It wasn't couched in any other way.

What we were doing, we were writing history after the fact.

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Now, at the time I had never focused on the arms angle of it, even though there were indications of arms, the Israelis' dealings with arms before that, going back into August-September. But my focus on that finding and the need for it was, I felt, the agency was in violation of the law, they did so at the request of the NSC, and I wanted the President to fix it.

Q That was your perspective.

A I didn't care whether it was baby carriages or what was in the airplane, the fact is they used our airplane, and we didn't have a finding to use it. If they had done it on their own without our knowledge, no sweat. But once they got Headquarters involved and then started using our people overseas, then we needed a finding.

Q And Sporkin as General Counsel to the Agency had advised you, the Deputy Director, that legally you needed to have some kind of finding.

A Right. He said he didn't think it was necessarily so for the proprietary, but for the use of our people and influencing foreigners overseas, and that was a new angle to me. But I didn't care what the reason was as long as he got a finding. And I told him to make it retroactive.

He came back to me and said, "Yes, we need a finding, but not necessarily for the use of the proprietary." And I said, "Okay, make it retroactive." He said, "I am going down and talk to the White House Counsel and to Justice." I said, "Great". He went away and came back with two paragraphs on a piece of paper which constituted the basic finding. It didn't have all the other boiler plate that goes on a finding.

Q That was the one you ultimately sent down?

A That was the basis of the one I had sent down. I never saw the finished product going down, but I did note it had that one paragraph, or a few lines, that forgave all original sin in CIA.

Q So the bottom line to you was you needed a finding, and you sent it down to get it signed.

A Right.

Q And you were told early in December by either Casey or Poindexter it had been signed?

A Right. And it was confirmed to me later by Charlie Allen, later in December.

MR. LEON: Off the record a second.

(Discussion off the record.)

(Recess.)

BY MS. DORNAN:

Q Let's start up again where we left off, which was on the retroactive findings, the November, 1985 shipment. There has been a lot of focus on this particular time period, sometimes I wonder why, but I think largely because an illegality may have been involved, perhaps technical, perhaps unintentional, and, secondly, because that fact has led to suspicion there was a conspiracy to cover it up.

But what strikes me in all this testimony is everybody has a different idea of what the illegality may have been between that time and this time as well. It appears to me from your prior deposition and your comments today that you thought it may have been illegal simply because of use of the aircraft. You said Mr. Sporkin thought it was illegal because of use of CIA personnel. Mr. Clarridge, in his testimony, said he did not distinguish between the cargo, oil drilling or arms, because he thought the issue was the embargo, if there was an issue, and oil drilling equipment was embargoed as well, so there was really no distinction in legal terms. Mr. Juchniewicz and [redacted] thought there was no illegality involved at all, so they approved the flight.

My first question to you is: Was there any thought in your mind regarding the Arms Export Control Act?

A No. In fact, I can't say when I knew arms or Hawks were involved. Juchniewicz told me it was oil drilling equipment. In looking back, that makes a hell of a lot of sense, because the Iraqis were pounding Kharg Island, the Iranians could only prosecute the war through the sale of oil. Therefore, oil drilling equipment was as much of a war machine as weapons.

It just didn't faze me. Even when Sporkin gave me that finding, that draft finding, where he mentioned either the words "munition" or "weapons", or whatever it was, "military equipment", that didn't register with me, I don't know why, but my focus was getting the finding. The fact of weapons or the weapons being more of a violation than the use of a proprietary just didn't come across my scope. I felt we had done something wrong, we had to fix it.

Q Another point in focus in the hearings has been when did CIA find out that arms were involved? Now, you said Mr. Juchniewicz told you that it was oil drilling equipment, and this was November 25. Is that correct?

A Right.

Q You also said in your prior deposition that you asked Clair George to collect together all the cable traffic involved in the operation.

A Right.

Q Did he show that traffic to you?

A Yes, he did. He came back with a packet of papers, and he said, "I don't think there is anything else in here you have to worry about", something to that effect. If I am not mistaken, he may have left them with me, but I never went through and read all the things. I just flicked through, and it all centered around getting landing rights and things like that.

But I don't think there was any cable that mentioned military weapons or arms.

Q When he brought those in, he never said anything about arms being involved in the shipment?

A No.

Q Because this has become an issue because there is a missing cable. Have you heard about that?

A I have heard about that. In fact, missing two cables from the same source. Just one cable? Okay.

Q One of them was a cable from [redacted]

A [redacted]

Q That is right. Which related a conversation with Secord, who said the shipment actually involved Hawk spares. So, to your knowledge, until very recently, such a cable had not existed; therefore, if it was lost, presumably it was lost before Clair George brought those cables in to you?

A Yes. I can't testify that that cable wasn't there or not, because I didn't go through it.

Q Apparently from what Clair George told you, he had flipped through this, and he hadn't seen such a cable, is that correct?

A That is correct.

Q In your experience in CIA, how would such a cable get lost?

A I don't think it would get lost in CIA if it were sent. But the trouble with that cable and the trouble with that whole channel is it has limited distribution to the Chief of the Division and the DDO. I just don't see something like that getting lost. The DDO ought to have it if it is not in the Division files. But it doesn't get the normal dissemination in CIA.

Q Well, the people in the DDO's office have said they never saw it. Dewey Clarridge has said that he does not recall it,and he has said that he collected all the cables, saved all the cables, and that he never destroyed any of them. Of course, people suspect he destroyed it, but the problem is here there was another copy he would have had to destroy and, secondly, apparently he would have had to destroy it immediately and realize the legal implications.

A Yes. And that is what I don't think makes any sense. The focus in CIA for me, because I was the noisest, centered around the use of a proprietary, and I don't think anyone in CIA was going to discriminate what was in that box; whether it was an arm, a baby carriage or oil drilling equipment, that wasn't the issue at the time. The issue was if we did something wrong, we would have to fix it. I doubt if there is anyone at CIA other than the lawyers who would talk about an Arms Control Act.

Q You never had any discussion with Mr. Clarridge in the one meeting you had with him afterwards about the content of the shipment?

A No. And you can't say it was a meeting. When I came back, after that morning, that Monday morning, Juchniewicz told me about the use of the proprietary, I said a few words to him, and then, if I remember right, I buzzed him on my direct line and told him to get Sporkin briefed on it.

MR. CAROME: When you say "him", Juchniewicz?

THE WITNESS: Right. I went back down to the DDO around 9:00 o'clock. When I went back to the DDO at 9:00 o'clock, Clair George was in his office, had the door shut, and there was a bunch of people in there. I opened the door, and he said, "I am just trying to find out what went on." I said, "You make sure you get some guys over to brief Sporkin on what happened", and I walked out.

And then I think it was later I told him, "Hey, you pull together all the cables and see what the hell is involved here."

BY MS. DORNAN:

Q Just one other question on that particular issue. You mentioned briefly today that you thought that this was simply an arms-for-hostage deal, it wasn't a strategic thing in your mind, at least at that time. In your prior deposition you also stated that the hostage issue was through which you interpreted this, because you had settled that early in your mind. Whatever the fact may have been, that is the way you interpreted it. Up to this point, had you had any full briefings on the extent of this program?

A No.

Q So it was all kind of by word of mouth, I gather?

A If I had anything, it was snippets of comments. But, again, you have to go back to why I was pre-conditioned for arms for hostages, and it came from our inability to get the hostages out of Lebanon, and our failure to even come up with good intelligence, and the NSC began to move into a vacuum. [redacted] So the NSC was sitting there, I am sure, with a President who was genuinely concerned over the hostages and the NSC couldn't get anyone to help them out, so they began to improvise and do things on their own.

Q But you didn't have any real firm evidence this was solely a hostage --

A No. It was just because our whole thrust was get the hostages out. No one ever came to us and said, "Hey, we ought to look for ways to open relationships with the Iranians." That was never a dialogue at all.

Q When Sporkin then wrote this retroactive finding and made it solely a hostage thing, did he have access to people who were the real policy makers at that time, who had a full vision of it? Did you give him a direction on how to couch that?

A No. I simply called him up and said that I thought we had screwed up, and we needed a finding. Then he got briefed. Apparently, as I understand now, the two guys who went over told him there were arms involved, but he never came back to me and said "There are arms involved", although the finding does cover that contingency.

Dotson/drg
end
McGinn fols.

McGinn/jm
10:30

Q But he never talked to anybody at the White House first, or anybody who was actually making the policy?

A I don't know. Not that I know of.

Q Let's go to a different area then. I would like to talk about Israel's role.

A Who?

Q Israel.

[redacted]

[redacted]

Q To your knowledge, did Casey have any personal involvement [redacted]

A No more than anyone else. Casey was a sought after individual by everybody, heads of state and intelligence organizations alike, but I don't think he gave more deference to the Israeli question than anyone else. Usually when he would take a trip he would make sure he touched base with all of the organizations of the heads of the state he was visiting.

Q In your prior deposition it indicated to me you indicated considerable suspicion about the Israelis in this whole operation and about their intentions. Let me cite a few examples.

[redacted] You felt that this Iran initiative was an Israeli initiative actually, and that Israel actually wanted a sale of arms so they could be used against Iraq. And finally, Israel was using the ruse of a strategic relationship to lure the Americans into this arms sale and, in fact, an arms hostage deal.

Could you expand on this? What do you think Israel's motives were?

A Principally to have one of their lifetime enemies lose. The Iraqis are an enemy of Israel. [redacted]

So I thought it served the Israeli national policy to have the Iranians put the squeeze on the Iraqis, and if you could bring the United States into it, that makes it all the better, particularly when most of the arms that the Israelis have come from the United States.

Now, they do generate and produce weapons of their own, but what better way to get the liberty and the license to ship U.S. arms into Iran than to get the U.S. involved in an arms deal with the Iranians.

I have no fact to that, but what I do have is glimpses over time that suggest that was their move. [redacted]

Q The current Iranian regime, however, is very anti-Israel, I would say, as much as Iraq, probably?

A Maybe -- you don't know that. You are aware of theatrics and statements, but whether or not deep down that is the case, I don't know.

[redacted]

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[redacted]

Q You said previously you think it was Israel that sold us on the idea there were, in fact, moderates within Iran?

A More than that, I think it is a fact. When Bud McFarlane began his briefing to the President on 7 December, 1985, for the Iranian initiative, he began with the words, "David Kimche says." So, it started that way. So I didn't have to interpret that.

[redacted]

Q There has also been a lot of wonder about this view that was given to the President by Admiral Poindexter that Iran was actually the one that was gradually loosing the Iran-Iraq war, even though, as you pointed out previously, all the intelligence estimates said the opposite from the United States.

Do you think the Israelis were the ones that sold Admiral Poindexter or others on that?

A I don't know, and I don't know where he got that idea. [redacted]

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[redacted]

Q Let's go to another area now. There has been a lot of wonderment over several things. One, over use of why Ghorbanifar was used when he was considered to be a liar by the agency, and secondly, why the agency put up with, so to speak, letting North take over this operation rather than insisting they should be doing it themselves.

Now in reading your prior deposition, it appears to me that the agency was -- at least some people within the agency, including yourself, were more than happy to stay out of this, in fact, didn't want to be operationally involved.

We have a lot of evidence that [redacted] and Clair George, people from the DDO, didn't want to have anything to do with Ghorbanifar, didn't want to have anything to do with an operation involving Ghorbanifar.

You, yourself, said in your prior deposition, for instance, that you didn't want any DDO people involved and that was one of the reasons why Charlie Allen was put in so that the agency wouldn't be in an operational role; is that correct?

A Right.

Q So is it possible then that if Casey supported this operation he, in fact, was forced to go outside the agency, that in effect, the agency didn't want to do it. The people below him in the agency didn't want to do it, and he didn't feel they would prosecute it enthusiastically if he ordered them to do it, so he felt he had to let the NSC take the operation?

A Yeah. I think you have to start with the fact that this was an NSC operation from the very beginning.

Q But you were happy to leave it that way?

A We were happy to leave it that way, and then when North ran into trouble and needed some help, then he turned to the agency for that area.

You have got to remember he had Secord all lined up on his own, and I think if Secord could have gone through with it, you know, we would have never been involved. And as far as I am concerned, that would have been great.

Where the trouble started is when they started using us, and I was somewhat depressed to think that our national security mechanism didn't appreciate the limitations of CIA's involvement. It is not a question of willingness to be involved; it is a question of legality to be involved.

I was dumbstruck that the National Security Adviser didn't realize that when you call upon CIA to conduct something, that you need a finding to do it. And most people in CIA will, you know, salute and go do something because that is the nature of the beast, especially when it comes from the NSC. But we were very -- we were reluctant dragons in this,and people say that you know Casey was very much in the forefront.

I think the way I assess it, Casey didn't disagree with anything I said or felt even about assessment about Iran until the President said,I want to do this, and then Casey saluted and it was a legal act then because we had a signed finding.

Now, if Casey got involved in saying it was a great idea, he was only saying it from a support from the President, not from an intelligence standpoint. And maybe with Secretary Shultz concerned about intelligence, it was not intelligence that was his real concern, because if it is, he is absolutely wrong.

What he may be concerned about is what Casey may have been saying personally; saying, yeah, boss, this is a great idea. But it wasn't the institution of CIA or the intelligence community that was saying it was a good idea.

Q But,in effect, after December, let's say in December and January,when the possibility of a new finding and action being continued and U.S. taking over rather than using Israel as an intermediary, in effect,they had to rely on NSC and the Secord operation to do it because the agency was really unwilling; isn't that correct?

A No. We are not unwilling if we have a legal instrument that says it is okay.

Q Didn't [redacted] and Mr. George go to Casey and say DDO is absolutely unwilling to become involved in any operation dealing with Ghorbanifar?

A That's absolutely right. That's Ghorbanifar. In fact, we advised both McMillen and Poindexter that Ghorbanifar was a nogoodnik. But our role was basically one of support. If they wanted something, you know, you call, we go.

Q Going to a somewhat different aspect of that problem, let me look at it a little more broadly. Sometimes in your career you have been looked upon as kind of a protector of the agency. You have been there for what, 36 years?

A Thirty four and a half.

Q Thirty four, you were?

You went up through the ranks, and you had dedication to it as an institution, protecting it. You weathered the Church and Pike years, and all the criticism. You didn't want to have to go through that again. Do you feel that Casey felt the same way about the agency, or do you feel he was a little more reckless with it, if you want to put it that way?

A I would say Casey by nature is forward leaning, but I don't think he's dumb enough to do anything that's against the law and I don't think he would ask the agency to do anything that was against the law.

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Q Do you think Casey sought to [illegible] CIA?

A It's hard to say. Being Bill Casey [illegible] -- you know, you don't change that tiger's stripes. But I saw no evidence of it. In fact, he used to proclaim quite proudly that he took a view of political chastity when he was sworn in as the DCI.

[redacted]

--------------NOT RELEVANT-------------

So I just don't see evidence. And you have to really work with the analysts to realize that you don't lead those sheep around at all. They are independent cats, and they take great pride in what they produce.

There are very few yes men out at CIA, and if there are, I have yet to meet them.

Q What I'm getting at in a round about way is kind of

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an alternative interpretation. The interpretation I gave you previously was that perhaps Mr. Casey felt he couldn't use the agency in the Iran thing.

What I am getting at now is perhaps a motivation of his was that he wanted to keep the agency clean also, not only in the Iran thing, but let's consider the contra thing also. Let's assume, if he was involved personally in advocating those actions, as Mr. North has said, perhaps he wanted to protect CIA as an institution, protect its reputation, therefore he was more than happy to go with NSC as an executor in the Iran operation and perhaps he also was more than happy to have Ollie North spearhead the effort to keep the contras alive and keep the agency out of it.

Now, maybe you would want to comment on that in general, but I would also like to focus you on one or two allegations or suspicions that have been raised in this connection.

One is that Casey actually kept the agency out of the contra business officially during the Boland Amendment, but that he may have gone and personally tapped people such as [redacted] [redacted] whom he knew would be supportive of the contras, and perhaps even gave them personal directions that they could do what they wanted despite the official agency policy?

A I don't subscribe to that. I don't subscribe to it as far as [redacted] is concerned, and [redacted] I think, had directions in writing which proscribed him from being involved.

Q Do you think Casey would have done that, would have picked specific people?

A No. I know that's a very popular belief that you know he kind of set up his own network, and it's obvious that he worked easier with some than others, but I don't think he would use the agency at all. I think he knew that the agency wouldn't do stuff like that.

He wouldn't ask the agency so do it, nor would the agency do it if he did. So I just don't buy that.

Q Okay, good.

I wanted to cover that because you knew him and you were involved there.

Then let's skip to another area now. The issue of leaks has been a prominent one in these hearings, and you have already raised them at least tangentially a few times yourself in your prior deposition and also again today.

You kind of indicated that the fact that this had become not just such a big program, but that there were so many leaks on the Central American situation and the contras that you felt the CIA could not be running such a program: it had become so open.

Secondly, on the Nicaraguan mining issue we discussed today, you already indicated that although the Intelligence Oversight Committees were briefed, and they probably had the jurisdiction over CIA covert actions, that before you knew it, both the Foreign Affairs Committee and the Appropriations committee on the Senate Side had been told, apparently by members of the Intelligence Committee.

Finally, also in your prior deposition you indicated that the signed retroactive finding was not circulated, but you did not find that surprising, although it was unusual; you did not question it because you felt it might have leaked otherwise. So you, yourself, have indicated that there are problems with leaks. It appears to have been, from Mr. Poindexter's testimony, a major factor in the White House's withholding of information from the Executive and Legislative Branches on this issue.

Do you think that a permissive culture about leaks has developed which undermines the policy process and consultation with Congress?

A If not in fact, at least perceived, and the end result is the same. I never felt uneasy about advising Congress of any intelligence activity, no more so than I would the Executive. While there have been some leaks out of Congress, my experience has been that Congress has been very protective of the information that we gave them. I would say that if you really look at the litn~~e~~ay of leaks that we are concerned about, most of them come not from Congress. I can see the Administration being concerned about the lives of the hostages and, therefore, didn't want to have the 5 December finding shipped around and also didn't want us to tell Congress, and I accepted that.

What I don't accept is the same Administration willing to deal on that matter with a guy like Ghorbanifar and not tell our elected representatives.

Q You, however, said previously that -- in your first deposition -- that you were not concerned -- you did leave in March '86, and you were more concerned with the departure preparations at that time. But although several months had elapsed since the January finding, you were not concerned about not having yet told Congress. Why was that?

A Because the House had just gone out and I was quite concerned that it would be a drawn out affair, that the Iranians would piecemeal it so they could get as much out of exploiting the U.S. arms as possible and that we had to give the same protection to the last of the hostages that we gave to the first.

Q Didn't you feel there would be some political price to pay for having withheld it so long?

A Not if we got them out. I think all of Congress would have been quite happy.

Q So you think they would have been heros instead?

A Yes.

Q You said whether or not it is true that Congress leaks a lot, there is a perception that it does. How do you think we can reestablish the trust between Congress and the Executive?

A Twofold, and it has to work from both sides, and both sides have not worked it very well. I think that Congress has to discipline itself from not intruding upon the Presidential prerogatives, that Congress should not become the Secretary of State, which it often likes to do by sending Senators, Congressmen, Committees overseas to enter into agreements or assurances with foreign governments. I think that's a matter that the Secretary of State ought to worry about. By the same token, Congress should not be blindsighted by policy, and therefore, should be brought into the policy deliberative process early on so that Congress can get a sense of where the Administration is going with a given country on a given issue so that there are no surprises and that there's a full communication. And basically, I think it's a question of the White House personally and the Secretary of State sitting down and talking to Members of Congress, and Congress appreciating the fact that the information has to be maintained in a confidential manner.

You can't conduct all foreign policy on the front pages of the papers. Foreign governments don't like that. No one likes it.

Q That leads into another issue which is the legislation presently being considered to tighten the reporting requirements and oversight over the agencies, intelligence agencies. These have included provisions for notification within at maximum 48 hours of a finding, notification of private individuals being involved, and so on. Do you have any comments on our wisdom of that?

A Yes, I sure do. I believe that oversight committees ought to be advised immediately upon the signing of a finding, and if there is a concern about certain sensitivity of the finding, given the timeliness, to maybe delay that no more than 48 hours, but after 48 hours, advise the committees if it's so sensitive there is an existing mechanism where we can advise the chairman and vice chairman of both committees, and the Speaker of the House, and the Leader of the Senate. And that should suffice.

end jm

drg fls take 4

Dotson/drg
Take #4
11:00 a.m.

BY MS. DORNAN:

Q There have been only two incidents in which Congress was notified, isn't that correct?

A Yes.

Q Both involved the hostages?

A Right.

Any administration has to remember that CIA has to live with its oversight committees, and the way you live best is to develop an element of trust with one another. The only way you can do that is making sure the committees aren't sand-bagged and that you go down and tell them what is going on so they can appreciate what is happening. It is very difficult, I think, we're asking too much of our Representatives and Senators if we come down and ask them for money to support certain programs and then the next day don't tell them something because we don't trust them. It is just not in the cards.

I think if we are going to have proper oversight and if we are going to have a good cooperative effort with Congress, we ought to keep them advised. And if there is a problem of leaks, then let Congress discipline itself.

Q Following up on that a bit, on the private individual's part, which you did not address, do you think it is -- in your prior deposition, you indicated that the use of private individuals, such as Secord, I believe was the context in which this was raised, did not bother you and that it was a good way to disguise this was a government-to-government operation, so philosophically it didn't really bother you, although you had problems with Ghorbanifar, as you stated today.

In his own deposition, Mr. Gates attacked the practice, and he said it was totally unnecessary, that CIA could have taken care of the operations such as these that involve a distrusted party and involved transfer of money. He said there are established procedures, and you didn't need a middle man to raise bridge money for this sort of thing. In general, he attacked the whole thing.

Could you comment on that?

A He is absolutely right. That is, if the CIA had the program to start with. But when we got into it with the signed finding transfers already an existing mechanism, albeit shaky, shady and everything else, it was there. And I saw no need to try and take over that program and run that. We could have easily have done that. But it was there, they had the contacts, they had the mechanism. All they needed was our help, and we gave it.

Q Do you have a problem with reporting the use of private individuals to Congress?

A Only if they are in an agent sense of a clandestine agent. But if we were going to use a New York businessman, or something like that, I would see no problem in telling the Congress that we are using a New York businessman. It is a strange way to do it, but it can be done.

[redacted]

MR. BARBADORO: In addition, you can report the program to Congress without identifying the individual involved.

THE WITNESS: Sure.

BY MS. DORNAN:

Q Let's get to another one of Mr. Shultz's concerns, in addition to charging the CIA with having slanted intelligence, he also attacked the NSC staff itself. He said it was too big, it should be cut back, and he basically said all that should be his business anyway, and the NSC was far too strong.

It is striking, if you go back in the press articles, until this issue broke, the NSC consistently was portrayed as weak, the NSC staff was. And it appears that this was perhaps an exception to that rule. Would you agree with that, or do you think the NSC was a strong staff under this administration? Do you think -- what do you think the proper role of the NSC staff is?

A It is not operational. I don't think the NSC should be involved in any operation, that they should use the mechanisms that exist in government to perform the functions that are needed. But the NSC is a reflection of the President's personality and how he wants to go about conducting his business and should be built in the image and likeness of the President and how he wants to conduct his national security matters. If he wants a staff to package that for him, then, fine. I cannot criticize the size of the NSC staff when one looks at the tremendous interests that the U.S. has worldwide on any given issue and the responsibility that the President has to coordinate all the organs of government on those issues.

And NSC staff was a perfect mechanism for causing that coordination and permitting an assessment of differing views to be registered with the President. If it's left to any one department, whether it is Commerce or State or Defense, to package it for the President, then he may not be getting the benefit of his full Cabinet.

So I think the NSC is a necessary organ, and it should be designed the way the President likes to do business. If he wants to pick a Cabinet and let them run everything, then he can do it that way. I wouldn't comment -- they should not be involved in operations, they should be a coordinating function and a facility function of getting policies promulgated throughout the government.

Q In conclusion, I would just like to go back to the question of Senate Intelligence, I know Dick has already discussed this with you to a great extent, I want to go over a few more general points and add a few specific ones, as well.

In general, on the issue of commenting upon intelligence draft, estimate drafts that come to him, what is the proper role of the DCI? In the papers sometimes you think they come at it from the point of view the DCI should accept whatever is given to him and should never ask for any re-look at it or anything. Otherwise he is slanting intelligence. What is the proper role?

A The DCI is the principal intelligence adviser to the President, and the national intelligence estimates are a means by which he passes that intelligence to not only the President but others in the National Security Council. They are his personal advice, though, to the President, and therefore they should certainly bear his signature. He would be very foolish to not accept advice and counsel of others, and he does that through footnotes.

But the intelligence, when it comes to the Director in draft, has been well coordinated through the entire intelligence community at a working level. And it represents the best working level throughout, all the Intelligence

Community can offer the DCI and the National Foreign Intelligence Board on that estimate. The Director then has a board meeting with all the principal players of the Intelligence Community, and they give them, the Director, their advice as to the worthiness of that estimate, and then the Director approves it, accepts it as is, or changes it. If he wants to change it,he changes it in the dialogue, in the discussion with others. And if someone really objects to how the Director is going to end up writing that report, so to speak, for that estimate, they get a footnote. He says, "Fine, put your footnote in." So it is a very open function.

Q What you are saying, there are institutional safeguards built in so intelligence can't be slanted.

A Definitely. And there isn't an intelligence officer I know that would let a false estimate be put out where there's differences of opinion, you know, we can all differ, but usually those differences show up in the report or in the estimate.

Q It was striking in reading your previous deposition, in fact, you said one of the things you feel Mr. Casey really contributed to the intelligence community was a considerable analytical process, and it is ironic he is now being criticized for having destroyed the analytical process.

A Yes. And in that analytical process, he brought in he caused seminars to be had, he brought in and encouraged our estimates to be given out to college professors to get their views, and if you look back, and probably [redacted] can get this for you, the number of seminars we had on the Near East and what is going on there, where all views of all of the U.S. experts from academia participate. Shultz just did an outrageous thing when he criticized the intelligence as being covert. Casey's opinion may have been covert, but only Casey and Shultz know that. The intelligence was pretty straightforward, and I think it can speak for itself.

Q In fact, I think you said today that Mr. Casey liked to vociferously sometimes -- well, very strongly present his opinions. When I was out at CIA interviewing other people, including Graham Fuller and some people in the DDO, they said that as well, and they said sometimes he would stick to his opinions, but he always accepted them when the intelligence community came back and said "We have considered your views, and these are still our views." He accepted that. He just wanted to be sure his views were considered in the process.

A Like Br~~a~~end~~o~~an Sullivan, he is not a potted plant.

Q The Near East Division also said you could always tell when he went away for the weekend, he had all his sources, and he would come back with these great ideas and send them off investigating everything in the world. Apparently, that is what led him to initiate in CIA a process whereby everybody would have exposure outside the agency as well into other opinions.

Was he concerned the agency or analysts themselves could be bound and take a view and ever change it even though events changed?

A It takes a very good analyst who, with sketchy information, comes up with an analysis and then as other information comes in will change that analysis. It takes a lot of guts to do that. Your opinions are now being assailed. You have to make sure there is enough dialogue people don't look into a certain rigid decision and then anything else that happens is viewed against that earlier decision.

Q Isn't that what in fact happened on the [redacted] estimate? Some people view it that way at least [redacted] never changed his views, in essence, he insisted on sticking by his original views, and others began to question them, and he said, "No, I am right."

A That is probably the case. I am not sure I can speak for what prompted [redacted] to do what he did or [redacted] is a difficult estimate, at best, as [redacted] It is a tough situation.

Q Another aspect of this has been the issue of whethe

the CIA becomes politicized if the DCI has Cabinet rank. I believe the first time he has had Cabinet rank is under this administration, is that correct?

A Yes.

Q So there is an issue here of whether intelligence and policy should be completely separated and whether that will, in fact, separate them. In the past we have had DCIs who have been influential in policy, even though they haven't had Cabinet rank. Do you agree with Shultz's recommendation?

A No. I think there is merit in having the DCI a Cabinet member. Intelligence by itself is useless. It is only useful if it is used by our government, and the best way to do that is to understand what the policy makers are driving at or where they are going. In that way, you can make the intelligence relevant. There is no sense writing something about Iran if the policy maker is looking at another aspect of Iran. You want to write about what they are concerned about.

The only way you can really do that is have a good dialogue, and the best way to do that is through the Cabinet situation. The NIOs are often accused of becoming co-opted by the policy makers because of their constant iteration of the policy makers, and while it is a concern, I think it's a necessary dialogue and one that you just have to keep an eye on.

By having the Director Cabinet rank, then intelligence doesn't become subservient to any department. While Shultz may want to make sure that intelligence reflects the best policy, I don't think that is a good idea. I think you want to have a strong independent intelligence organization.

Q Mr. Shultz also stated specifically that he felt the Director of Operations had had excessive influence on estimates and had been biased in this way. I believe he cited specifically the Iran case and terrorism. Have you had, getting it down to those specifics, have you seen ahy indication of that?

A None whatsoever. [redacted]

Q I want to just run over very quickly, as I conclude here, a couple of the specific cases in which there has been an allegation of biased intelligence. One of them, I gave you this article before we started that appeared in the New York Times on August 31. In there it was cited Mr. Casey urged his analysts to, when there was a danger of Congressional cutoff of funding in Central America to help the contras, to make more stark the view that the contras would be eliminated by this cutoff.

I don't know whether this occurred or not, you might speak to that, but in addition I would like to know:

Did the analysts disagree with the view that the contras would, in fact, die if there was a funding cutoff, or did they, in fact, agree with this and Casey simply wanted them to state it more clearly?

A I don't know if there is one opinion on that or not. It is obvious that if you looked at how the Nicaraguans handled their propaganda here in the United States, they were constantly striving to have a hiatus in support to the contras in hope that they could dry up, and it's very difficult to, you know, get the gang going again once they have dispersed or gone back to the farm, what have you.

Q I was wondering, because the people I had talked to had said subsequently they had under-estimated the contras' staying capability. So I thought maybe it seemed that most of them thought they would die.

A I think you have to put it in the context of the time. I don't know if we were sizing the financial flow to the contras to the degree that it was, and we would probably -- if there is any under-estimating, it was the fact that the contras would get support from outside. And maybe that is, you know, the result of Ollie North and all his speeches.

But we looked on it, what happens when we pull away, and I thought we saw a vacuum there, and everyone said it is going to dry up.

Q To clarify the record, the New York Times article

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was August 31, 1987. Another issue related to Central America, another issue is whether there were any directions to withhold from the House Intelligence Committee some cable traffic related to contra affairs. In this respect, Richard Giza of the House Intelligence Committee was getting this, and it turned out after this investigation began, we found out there were some pieces he did not get. [redacted] said this was just a slip-up, and it had not been directed. Do you have any knowledge of that?

A No.

Q All right.

A That would be fool-hardy to do something like that.

MR. POLGAR: It was long after you left.

MR. LEON: But from experience, is [redacted] the kind of person who would intentionally do something like that?

THE WITNESS: No way.

BY MS. DORNAN:

Q Another area is Angola. Although the Secretary of State did not mention this, there have been allegations in the paper by un-named State Department officials CIA slanted the intelligence on Angola to show there was more of a threat of an offensive than there really was in order to get the Congress to rescind the Clarke Amendment. Do you have any comment on that?

A No. I think the various intelligence showed as

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proof Angola can cause trouble when they want to. I really can't comment on that other than to say I don't think it is true.

Q Just briefly, another one was Mozambique, that was mentioned in this August 31 article, and it stated in a similar fashion, the CIA had over-stated the prospects for Renamo, the resistance to the Communist Government there, because Casey hoped to get U.S. aid for Renamo. Was this true in your experience?

A No. You must bear in mind that again CIA doesn't exist in a vacuum, it exists in the Intelligence Community of which the Department of State is a leading part. And if you look at the process of our intelligence, the President's daily brief, the National Intelligence Daily that is put out, most of the articles in that come from political reporting originated by the Department of State.

Q There are estimates, however, not National Intelligence estimates, but other publications, that are put out by the agency itself, in coordination with other agencies. Have you ever seen any slanting of those by the DCI?

A No. But I would not be privy necessarily if Casey wanted to write the President a letter and said, "Dear Mr. President, you ought to worry about something". But that is not an intelligence estimate, and that's not slanting intelligence, it's Casey's personal opinion.

Q The last thing I would like to ask you about is something which appeared in the Tower Commission, and it stated the NSC had had excessive influence over the CIA, and particularly with regard to the Fuller memorandum. We interviewed Graham Fuller, and he rejected this and said that, in fact the Tower Commission had not understood the role of a NIO. He also said that he didn't usually agree with Howard Teicher, but in this particular case it just so happened they agree, and he had to get feedback from the policy makers on areas of their interests and so on.

Could you comment on the Tower Commission's report in this respect?

A I will say that I don't think Graham Fuller was impressed by anyone, that that paper that Graham prepared is a typical Graham Fuller, he, you know, thinks beyond and outside of things, and I think that's very healthy in trying to stimulate thought, and if you read that document carefully, he just finished saying "what if" sort of thing, he is not saying this is the way it is; it is something you ought to worry about to get people to think, are we prepared for a change of government, and if so, are we prepared to move in there or are the Soviets going to case us out?

If that is the case, what ought to be done to mitigate against that? And to me, that is a very legitimate worthwhile responsibility of the NIO is to make the policy makers think of possible contingencies. It is not intelligence, he is just lighting a fuse.

While I didn't necessarily agree with what Graham said, I didn't have any reason to really argue with him. And I don't think anyone else did either. In hindsight now, it looks like he was serving up soft balls for the NSC to have a rationale for their initiative, but I don't think that was the case.

Q Mr. Fuller wasn't informed of the Iran Initiative. I think it was sort of a sore spot with him afterwards. In fact, it is ironic since he was the NIO in that area, and subsequently there were charges the intelligence was slanted, that he never even knew about it, even though he was putting out all the intelligence subsequently.

A Yes.

Q Do you think one of the reasons Casey did not inform him was because he wanted to keep the intelligence estimates pure, so to speak?

A No. I just don't think Casey thought about it in that context.

Q He just kept it within a small circle for security reasons?

A Well, I don't think Casey kept it any place. It was a NSC OP, and they called us they needed us. I don't think Casey made a conscious decision. I think he just tried to keep it quiet for the security of the hostages. I don't think anyone said "Don't tell Graham Fuller", I just don't think it came across his desk.

MR. POLGAR: Off the record.

(Discussion off the record.)

son/drg
end
inn fols.

McGinn 11:30

Take 5

jm fls drd

EXAMINATION ON BEHALF OF THE SENATE SELECT COMMITTEE

BY MR. BARBADORO

Q Mr. Carome is going to ask you questions about the November, December, January time frame, so I won't ask you any questions about that.

I want to focus on just a couple of areas that have been raised previously in questions today.

At the beginning of the deposition, you testified that Mr. Casey wanted to increase the use of [redacted] by the agency. Is it fair to say that there is a big difference between [redacted] as that term is used in the agency, and the kind of full service, off-the-shelf, private covert action entity described by Colonel North in his testimony?

A Definitely. I should have made that point clearer, Paul. [redacted] it is quite separate and apart from this off-the-shelf whatever. [redacted]

jm 2

[redacted]

Q Another difference is that operations [redacted] [redacted] are funded with appropriated funds, whereas the entity Colonel North described would get its money from unappropriated funds; is that right.

A As I understand what Colonel North had in mind.

Q And finally, another major difference is that operations [redacted] still comply with the U.S. laws regarding the requirement of Presidential findings and notification to Congress, whereas Colonel North's entity as he described it, would not necessarily involve Presidential findings and notification to Congress.

A You are correct.

[redacted]

MR. BARBADORO: I think you answered these questions with Mr. Leon, but let me just make sure I understand your answers.

BY MR. BARBADORO:

Q Setting aside this issue of Director Casey's desire to expand [redacted] did the Director ever discuss with you the possibility of funding covert operations out of private funds, non-appropriated funds, rather than appropriated funds?

A No. If he did, I think I would have reacted.

Q And did the Director ever discuss the possibility of conducting covert operations without complying with U.S. laws regarding the requirement of Presidential findings and notification to Congress?

A Never.

Q I assume if he had discussed those with you, you would have objected to those'discussions?

A Indeed, indeed.

Q The last area I want to touch on, because there have been so many questions asked about it is this issue of the slanting of intelligence. I want to focus not on the question of slanting the intelligence producted by the analysts, but rather on the possibility that the intelligence could be slanted in the way that is communicated to the policy-maker. Let me ask you a general question first.

Do you see any potential problems if the people that are responsible for communicating intelligence to the President are also people involved in making policies?

A Often they are one in the same. If the Secretary of State discusses a proposed policy with the President, he usually has to set the stage of why the policy and why he wants to do it that way, that that suggests a briefing which provides

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or sets the stage, and that stage setting we call intelligence, or information, or background, or what have you.

Q Is there a danger though that a person who has a particular policy to advocate will slant the reporting of intelligence to support the policy that he's advocating?

A I guess it depends on how much integrity he has, but this is a key issue with Casey. Casey was a great believer in pushing intelligence out.

We went from the production of like 9 to 12 national intelligence estimates a year, to over 80. In fact, I think this past year it was probably over a hundred. And his whole philosophy was get the intelligerce out on the table and force the policymaker to kick it aside before he makes the policy.

But he says the policy that you give to a policymaker or the intelligence you give to a policymaker the day after he made policy is useless. So he wanted to push, and push, and push, and he did very well at that.

So his desire was put intelligence out. And I don't think we ever got in the business of writing report cards on why certain policy was great because this intelligence now supports it. He just pushed it out.

Q The point I am getting at though is Director Casey served as the President's principal intelligence adviser. He also served as a person who he had make policy and who advocated policy.

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In your view, isn't there a danger when the person who is the President's principal intelligence adviser also becomes an advocate of policies?

A I don't think it's really a danger. In a way it may be a delightful benefit because you are having a well-informed policy being created. It's far better that policy be borne amid good intelligence than in the absence therefore.

I guess it comes back to the question of the integrity of the person. Is he advocating a policy because he knows what's happening, or does he just like to have a certain policy and then tries to make the intelligence support it.

Q The Central Intelligence Agency separates the functions of analyzing intelligence from the function of carrying out operations even where -- even to the point where people in the intelligence side of the agency are providing intelligence directly related to operations that are being conducted by the operations directorate. What is the reason for that separation of intelligence from operations within the agency?

A I think the principle of separation is historical in nature, prompted by the compartmentation that's desirable around agent operations. You want to limit the knowledge of the agent operations. It also goes to be nature of the people involved in the finished product.

A good analyst does not necessarily make a good operations officer and adviser and vice versa.

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Q Isn't another reason the fact that there is concern that a person running an operation might not be able to do the kind of objective analysis of the operation that a good independent intelligence analyst would?

A It would be hard to argue with the wisdom of what you say, but I don't think it's necessarily so. I would like to think that our intelligence operatives conduct their business with the best of intelligence very much by their side.

I don't think you need that separation of church and state in the intelligence business.

Q And on the level of the Director of Central Intelligence I take it then you also feel there's no particular problem with having the DCI also be a policy adviser to the President?

A No, I don't, so long as his policy is based on honest and adequate intelligence and not a semblance of intelligence. Again, it goes back to the integrity of the individual.

MR. BARBADORO: Let me mark this document as McMahon Exhibit A.

It's a January 17, 1986 memorandum for the President from John Poindexter. The document number is N 10046, I guess, to N 10048.

(Exhibit No. JM-1 was marked for identification.)

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BY MR. BARBADORO:

Q Take a look at the exhibit and tell me if you have seen it before?

A Other than last night in a stack of papers that I saw at CIA, I can't say that I recall seeing it. Nothing here is knew to me, but I can't say that I saw this document.

Q You certainly don't remember seeing it at or around the time it was produced? Is that fair to say?

A I just don't know.

Q Mr. McMahon, this memorandum, according to the notation on the bottom and according to, I believe, Admiral Poindexter's testimony, was used to brief the President when he signed the January 17 Iran finding.

I want to ask you---

A I am not aware of that in that context.

Q Okay.

What it says -- let me just read you this handwritten note. It says at the bottom: "President was briefed verbally from this paper, VP to be, Don Regan and Don Fortier were present." And it has Poindexter's initials on it.

In any event, let me represent to you that this document was apparently used to brief the President when he signed the January 17 finding. Let me ask you some questions about it.

In the first paragraph of the memorandum it states in the middle, "The Israelis are very concerned that Iran's deteriorating position in the war with Iraq, the potential for further radicalization in Iran and the possibility of enhanced Soviet influence in the Gulf, all poses significant threats to the security of Israel."

Mr. Gates has testified that the statement that implies that Iran's position in the war with Iraq was deteriorating on January 17, 1986, was not consistent with U.S. intelligence reporting about Iran's position in the war. Would you agree with that statement by Mr. Gates?

A Definitely.

May I go off the record?

(Discussion off the record.)

BY MR. BARBADORO:

Q At the beginning of the second paragraph in the memorandum states, "The Israeli plan is premised on the assumption that moderate elements in Iran can come to power if these factions demonstrate their credibility in defending Iran against Iraq and in deterring Soviet intervention."

Mr. Gates testified that it was the position of the U.S. intelligence analysts at the time that there were no moderate elements in Iran. Would you agree with Mr. Gates' statement?

A Not only would I agree to it, but that's what I told the President, and I was quite upset when George Shultz began his testimony.

MR. LEON: When did you tell the President?

THE WITNESS: On 7 December, 1985 -- when George Shultz said in his testimony before the committee that the President, you know, was getting secured information, he also commented that he thought I was rather passive at the meeting. He remembered that I informed the President that we had no knowledge of any moderates, that they were all slaughtered by Khomeini when he came in, and that any weapons given to any so-called moderates would end up at the front line supporting the Khomeini Government.

He remembered I said that, then I guess the rest of his testimony about the President not getting good intelligence or advice to the contrary would go by the boards.

BY MR. BARBADORO:

Q Let me focus on this memorandum and what the President had before him on January 17. This memordum does not contain any reference to the position of U.S. intelligence at the time that there were no moderate elements in Iran, nor does it contain any reference to the position of U.S. intelligence that at this time Iran was not losing the war with Iraq, but, in fact, if anything, had the upper hand in the war with Iraq.

Based on the absence of any reference to the U.S. intelligence position on those issues, would you agree that this memorandum is, in fact, an instance of slanting of intelligence reporting to the President?

A I won't say it's slanting intelligence reporting. It's misinforming the President, but it's not intelligence derived from the U.S. intelligence organization.

MR. LEON: Would you say it's failing to report U.S. intelligence?

THE WITNESS: It's an absence of the U.S. intelligence.

BY MR. BARBADORO:

Q Is it also misleading because of the absence of the reporting?

A It's definitely misleading and that was not our position at that time, as Mr. Gates reflected.

Q That's all I have.

MR. LEON: Could I follow that up for a second.

MR. BARBADORO: Sure.

EXAMINATION ON BEHALF OF THE HOUSE SELECT COMMITTEE

BY MR. LEON:

Q It just occurred to me tht when Mr. Barbadoro was asking you about the President's being made aware of the intelligence community's product that something we hadn't asked you about was the President gets daily briefings from the CIA, does he not?

A He gets a daily brief that usually the National Security Adviser brings into him. Whether the President reads all of it by himself or whether the National Security Adviser briefs the President from it, I don't know.

Q So who controls---

A The National Security Adviser---

Q ---what it is the President gets?

A The National Security Adviser.

Q Does the agency send over to the National Security Adviser on a daily basis intelligence information on various subjects?

A Indeed.

Q And he then, the National Security Adviser then in turn decides which portions of that, if any, to give to the President?

A Right. We prepare a daily Presidential brief. We bring it down. The courier brings it down, gives it to the National Security Adviser who takes it to the President.

Q You keep those? Those are on file with the CIA?

A Yes.

Q They are in writing?

A Yes. I think that the committee is also on distribution of all our finished intelligence, the national intelligence daily, and stuff like that, and the committee would be well aware if suddenly we started producing intelligence that suggested different things in Iran than what we had been saying before.

MR. BARBADORO: I have no further questions.

Could we go off the record just a second?

MR. CAROME: Why don't we see how quickly we can rap this up.

Just for the record, my name is Patrick Carome. I am one of the lawyers on the House Committee.

EXAMINATION ON BEHALF OF THE HOUSE SELECT COMMITTEE

BY MR. CAROME:

Q Let me show you a copy of your December 7, 1985 memorandum.

For the record, it's already been made an exhibit. We don't need to mark it again.

In the beginning of the third paragraph, you refer to the fact that, "I immediately informed our general counsel after confirming with Dewey Clarridge our involvement." This was referring to the activity over the November 24, 25 weekend. Do you recall speaking to Clarridge on November 25 prior to Sporkin?

A No. I'm not -- I can't follow the turn of events.

Q Do you think you may have spoken to him and you can't recall or do you think you probably didn't speak to him at all prior to speaking to Sprokin?

A What I probably did was call Clarridge after I came back from seeing Juchniewicz, which would have been in the -- you know, after 7:30 in the morning.

Q So it would have been early in the morning on the 25th.

A 25, right.

Q Do you recall what was said in that conversation?

A No. Just I guess -- no, I can't. The only thing that really sticks in my mind on Clarridge is in the night when he came in around 6:30, 7 o'clock at night, with a cable going out [redacted] turning off [redacted] over there.

Q Now just so it's clear, you think you may have spoken to Clarridge in the morning, but you can't recall the substance of the conversation?

A I can't recall, no.

Q ---if it occurred; is that right?

A Right.

MR. LEON: Just for the record, the exhibit you have been referring to here is marked [redacted] No. 6, in the upper right-hand corner?

MR. CAROME: Yes.

It was made an exhibit to the [redacted] deposition that was taken some time ago.

MR. LEON: How do you spell his last name?

MR. CAROME: I believe it's [redacted]

MR. LEON: It's dated 6, 19, '87.

THE WITNESS: What probably happened, Pat, is Juchniewicz told me that Dewey called him or something like that, and so after I got through to Juchniewicz I probably went back and called Dewey. But the context of the coversation, I can't remember.

MR. CARO~~M~~E: Let me have this document please marked as an exhibit.

(Exhibit No. JM-2 was marked for identification.)

BY MR. CARO~~M~~E:

Q Mr. McMahon, I show you what has just been marked Exhibit No. 2 to this deposition. I imagine you have probably not seen this exhibit before. I will represent to you that it is a page our of Oliver North's notebooks, which the committees have received. At the top it's dated, October 26 or 25. We can tell from the place that it occurs in North's books, however, that it's actually November 26, was the date of the document. At the very top there is an entry that appears to have the -- the time is 0005. That would be five minutes after midnight.

It reads: "Call Clarridge." This would be a call from Clarridge to North at five minutes after midnight on November 26. Then it says in quotes, "This is criminal."

My question to you is did you some time on November 25, prior to this phone call, together with Clair~~e~~ George, summon Dewey Clarridge into a meeting of some sort?

A No. I think Clair~~e~~ may have done that with the whole group of people at that 9 o'clock meeting that I referred to.

Q The quote here, "This is criminal," is that something that you said to Clarridge on the 25th of November, referring perhaps to the activity that had happened that weekend and the involvement of the air proprietary?

A I don't recall saying it, though it wouldn't surprise me if I did. I just don't recall meeting with Clarridge except when he came in with that cable on the evening of the 25th.

MR. LEON: If you said it, would there have been a question mark after the word "criminal"?

THE WITNESS: I question mark?

MR. LEON: Would you know?

THE WITNESS: I felt -- there was no question in my mind that I thought we had violated the law. There was no doubt about that.

MR. LEON: But a criminal law?

THE WITNESS: No.

MR. LEON: It isn't a criminal violation?

THE WITNESS: I don't know.

BY MR. CAROME:

Q But it would not have been out of tenor with the way you felt at the time; is that correct?

A Right.

But if I used the word, "criminal" it would be criminal in a political sense, not a technical, legal sense.

Q But specifically you do not recall a conversation later in the evening on November 25, perhaps after Sporkin had received his briefing from the [redacted] people; is that right? You don't recall speaking to Clarridge again?

A No. Clarridge came in my office around 6:30, 7 o'clock, but it was just on a cable going out [redacted] telling [redacted] to back off, that this is was a National Security Council operation and there was no need to re-raise it [redacted]

Q Do you recall whether when you had that conversation that you do recall with Clarridge whether that was before or after you had heard word back from Sporkin after the -- he had been briefed by the operations people?

A No.

You've got to come back to me again on that. When I saw Clarridge at 6:30, 7 o'clock on the night of the 25th, was that after Sporkin talked to me?

Q That's my question. I believe that that was probably about simultaneous with the time Sporkin was being briefed by the operations people. I am wondering if you may have spoken to Clarridge again after that conversation about the State Department people?

A No.

Q You have no recollection of that?

A No.

MR. LEON: Pat, this exhibit that says October at the top?

MR. CAROME: I have already covered that. From the notes it's obvious it is a November 26 entry.

MR. LEON: Did North testify to that by any chance?

MR. CAROME: I'm not sure.

THE WITNESS: In fact, Pat, after I released that cable, I went home because Dewey caught me, I was packing up at my desk. I was standing up. I read the cable, saw it was a turn off, and sent it out. That was it. Then I went home.

BY MR. CAROME:

Q Did you express any anger to Clarridge at that time?

A No, more dismay than anger. I think the only one I really vented with was Juchniewicz.

Q And that was in the morning?

A That was in the morning.

But I also told him that day nobody was going to do a God damn thing until we got a finding.

Q You told that to Clarridge?

A I told that to everybody in that room, and I told Clair George to make sure everybody at the DEO knew it.

Q And you are referring to the 9 o'clock, or so, a.m. meeting; is that right?

A Around there, yes. I saw Clarridge several times that day.

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. Q Did you speak to anyone else at the agency other than Clarridge and Mr. George after that 9 o'clock briefing about this?

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THE WITNESS: I spoke to Sporkin several times.

BY MR. CAROME:

Q Anyone else?

A Well, certainly my assistant, [redacted] but I don't recall talking to -- none of the officers in DEC or anything like that.

Q Do you know why the briefing of Sporkin would have been delayed or would not have taken place until after the end of the working day?

A No. That surprised me, other than Sporkin's availability. I thought I had left word for those fellows to get over there right away, but why the delay, I don't know.

Q You may have been asked this before. When did it first dawn on you that the cargo on [redacted] aircraft was weapons?

A To this day, I can't tell you. I don't know whether it was the 26th, the 27th, the 5th, the 7th, or when. I just can't pin that down. But you have to remember that didn't mean anything to me, I didn't care what was in that cargo. I just felt we had violated the law, and it didn't matter what was in it. Even if I knew it was weapons at the time, they wouldn't have rang a different bell to me than oil drilling equipment.

You missed out, I think, on my comment, to me, oil drilling equipment is probably far more important to the Iranians than weapons. Because they live and prosecute the war by their oil.

MR. POLGAR: Off the record.

(Discussion off the record.)

MR. CAROME: Back on the record.

BY MR. CAROME:

Q Did you know the communications that were going on over the weekend that CIA personnel were participating in had to do with problems with landing clearances for aircraft?

A The only communication I saw was on the previous Saturday, Juchniewicz showed me a cable, and I think it was going from the Deputy National Security Adviser to the Charge. It spoke of, it was more or less what I have described as bemoaning the fact [redacted] didn't help out. I told Juchniewicz, I said, "Okay, it is okay to send cables, but don't get involved." And we often sent cables for Secretary of State, Secretary of Defense, anybody, you know, and so to me that was a mechanism of using CIA security to go from the White House to the Charge. We were just a conduit to do that.

Q Did it surprise you this sort of high-level crisis involving landing rights --

A I don't think the cable spoke of landing rights. All this cable spoke of was [redacted] not willing to help out. It didn't describe, if I remember right, it didn't describe anything else.

Q There is another entry in North's notebook, I don't have it here with me, dated November 26, 1985, in which it appears that North is being told by Poindexter that the President has directed that the operation proceed.

Did you have any indication, or did you receive any word at any time in that timeframe that there had been some direction from the President for the operation to go forward?

A None whatsoever. In fact, the ground rules I left is we weren't going to do anything without a finding.

MR. LEON: Did the Director back you up on that?

THE WITNESS: Yes. In fact, I recall, I can't get, I don't recall the point in time, but I can remember walking in the Director's office, and he was on the phone, and he said, "Well, we need a finding", and he hung up, and we talked about something else. I don't know who he was talking to.

BY MR. CAROME:

Q In the period November 25-26, that week, did you have any discussions with Charlie Allen about the activity over that weekend, the [redacted] plane and the hostage release operation?

A I don't recall, but it wouldn't surprise me if I did. Wait a minute now, Charlie wasn't in that group at that time. I just don't recall. There is no reason why I should, but at some point we made Charlie the point of contact for North in supporting this operation, and I think that was later in December.

Q All right.

General Counsel Sporkin and Oliver North met at North's office in the evening of December 9, 1985. Sporkin has testified that it is his recollection that that was originally to be a meeting among himself, North and you and that the purpose of the meeting was for you to talk to North about getting the agency out of the Hostage-Iran Initiative. Does that conform at all to your recollection?

A No. But I do recall being scheduled to go to a meeting with Sporkin, I don't think it was just with North, but it was down at the White House, and for some reason I couldn't make it, and Sporkin went down by himself. There was no, you know, big deal about it. It was just that I was tied up, and I couldn't go. And I don't think it was a question to get us out of it. I just don't know.

Q What was the purpose of the meeting?

A I don't know. I just don't recall that.

Q That would have been just two days after the meeting with the President that you attended. Do you recall if it was connected with the Iran operation?

A I would suspect that it was, but I just don't recall.

Q And you can't recollect what the purpose of that meeting would have been?

A No. Nor can I recollect why I didn't go.

Q But you do not believe it was a question of getting the agency out of the operation at that point, is that right?

(No response.)

MR. LEON: It could have been?

THE WITNESS: It could have been. I just don't know, Patrick. You know, one thing that you must bear in mind, and I have probably said this before, but when you put focus on Iran, everything lays out and looks like you have a continuous stream, but in our daily life, this is like a four millisecond burst, and then you are on to 16 million other things, and then four days later something else happens. When you put it together, it looks like it is a big deal going about, but it really didn't come across our screen that often.

BY MR. CAROME:

Q Did you prepare your December 7, 1985 memorandum for the record before or after the meeting with the President do you recall?

A It had to be before. The reason I say that is two-fold. I think if I did it afterwards, I would have made some comment or note to that effect in this. But I had my assistant check with my secretary, who prepared that, and she said that that was prepared on a Saturday morning, and she left the agency or signed out the agency around 1:00 o'clock. We didn't break up with the President until about 12:00, and I doubt if I would have dashed back and dictated that and have her type it before she checked out.

To me, I probably dictated that on a Friday evening, and she typed it Saturday morning, or I could have gone and dictated it to her Saturday morning, and she typed it up. But that was done before the 7 December meeting with the President.

Q Why did you do this memorandum at that period?

A Because I knew at some point in time in the future we would have to get honest with Congress in advising them of the finding, and what I wanted to do was make a note of what happened so that when they got excited about not being advised, at least I could walk them through what transpired.

MR. LEON: I just want to stop you there a second. You said get honest with Congress.

THE WITNESS: Correct the record.

MR. LEON: Is that a poor choice of words?

THE WITNESS: It is a poor choice of words. Eventually we would have to advise Congress.

MR. LEON: There hadn't been any dishonesty on the part of the CIA?

THE WITNESS: No. It is just we didn't advise them in our normal timeframe.

MR. LEON: Pursuant to the finding.

THE WITNESS: We eventually have to do that. Good point, good point.

MR. LEON: We don't want some report coming out the CIA was being dishonest if it wasn't.

THE WITNESS: Thank you for the correction.

BY MR. CAROME:

Q Do you recall whether or not the Hawk shipment over the November 24-25 weekend was discussed at the December 7 meeting?

A Not at all.

Q You don't recall, or are you saying it wasn't discussed?

A No, it was not discussed. I have no memory of that being mentioned at all. It was just this new initiative which David ~~Kemke~~ Kimche had talked to McFarlane about.

Q How about the finding, was that discussed?

A That was not discussed.

Q Didn't that strike you as extraordinary?

A Why? No, not at all.

Q Wasn't this a continuation of -- wasn't the discussion on December 7 focused on continuing precisely the initiative that had been going on before?

A No. It centered around a rationale of developing a dialogue with moderates in Iran, and that was kind of the foundation for the whole discussion.

MR. LEON: Who was claiming there were moderates at that meeting?

THE WITNESS: McFarlane was relating what I believe he got from the Israelis, assuming it was David Kimche ~~Kemke~~, since he mentioned David Kimche ~~Kemke~~ to start with.

BY MR. CAROME:

Q I believe earlier when Mr. Leon was questioning you, you said that Sporkin had said something to you about going down to talk to the White House Counsel and the Justice Department about the finding. Could you expand on that?

A No. That's the extent of it. He was standing in the doorway of my office when he said that.

Q What time was that? Was this on the 25th?

A I don't know when. I would say it was probably the 25th, evening, or the morning of the 26th.

Q And what did he say?

A And he came back and said, "You need a finding, but not necessarily for the eyes of the proprietary." I said, "What are you talking about?" He said, "Well, for the influence that our overseas personnel had." I said, "You mean like getting landing rights and things like that?" And he said, "Yes." I said, "Okay, then prepare a finding, and I want it made retroactive." He said that he was going down and talk to the White House Counsel and Justice. And I said, "Great", and he walked away.

Q Did you think he was about to immediately go downtown to do that?

A I don't know. That didn't register one way or the other.

Q Did you ever find out whether he had in fact talked to the White House Counsel or someone at Justice about the finding?

A No, the next I saw Sporkin, I was standing around the table in my office with a number of people, and we were looking at something, I forget what it was, and Sporkin came to the door and showed me a finding, two paragraphs on a piece of paper, it wasn't a finding, just two paragraphs, I read it, I said, "Great, get it to Casey, get it down there."

Q Did you on November 25 say anything to Sporkin about what you thought had been carried on the plane?

A No. If I remember correctly, I simply said the DDO screwed up, and we needed a finding, or I thought we needed a finding, and I was sending some guys over. He said "Fine." In his testimony, he mentioned words like

I said a super-sensitive deal and stuff like that. That is not my nature. I wouldn't say that. We were very straightforward. We screwed up, and we needed a finding.

Q Did you tell anything to Sporkin about the fact agency personnel had been involved in communicating and trying to get clearances?

A No.

Q When was the first time that you had any hint about the possible involvement or the involvement of the CIA proprietary in this November 24-25 operation?

A At 7:15 to 7:20 in the morning of the 25th.

Q You received no hint of that on the 23rd, is that right?

A None whatsoever.

Q Referring again to your December 7 memorandum, the last sentence of the second paragraph says, "General Secord then took it from there and made arrangements for a flight on a strictly commercial basis."

What did you mean when you wrote "strictly commercial basis"?

A That was part of Juchniewicz's response to me, when he told me they had used the proprietary, I said, "God damn it, I told you not to get involved." He said, "It wasn't us, they came to us, and we said no, and they asked for the name of a secure airline, and we gave them the name of our proprietary, and they made the commercial arrangement between them and the proprietary."

Q But, in fact, I mean, this was a flight closely monitored from agency Headquarters, it wasn't really handled in a normal commercial manner, was it?

A I don't know. I don't think we monitored it. I am not sure what you mean by monitored.

Q You knew that the Chief of [redacted] and the Liaison between the agency and [redacted] were closely involved in the operation of that flight over that weekend, didn't you?

A No, I didn't know that at all until I was informed about it on the 25th.

Q But by the time you were writing this memorandum, you knew that.

A Oh, yes. It was open knowledge then.

Q And while [redacted] sometimes does flights that are commercial, it is not the norm on those commercial flights for agency Headquarters to be involved in the monitoring of flights?

A No, where I was concerned was that Headquarters CIA got involved in this. If North or Secord or anyone called up [redacted] and said, "Hey, we got a shipment to go" and we weren't involved, then no sweat. But once they involved us, we needed a finding. So I thought.

MR. LEON: That was Sporkin's opinion, too, wasn't it?

THE WITNESS: No, Sporkin said he didn't think it was necessarily for use of the proprietary but for the influence our people used overseas to get landing rights.

BY MR. CAROME:

Q You said a little earlier this morning that Clair George had collected all of the cables at your request related to the activities over the weekend and had said he saw no problem with anything that he saw in the cables. Is that right?

A Well, no problem in that there wasn't anything else other than this event.

Q And you did not look yourself through the cables, is that right, at that time?

A I think I gave it the executive scan, as we call it. I didn't sit down and read all the cables, no, I did not.

Q On the question of whether a cable was lost, you certainly don't know one way or the other whether a cable was missing at that point, is that right?

A No, I have no knowledge of that other than CIA Headquarters feels it didn't exist, and that is just not Dewey Clarridge saying that, it is all the people that hunted for it.

Q You don't know if a cable was lost when it might have been lost, is that right?

A No.

Q You don't know whether it was lost in 1985 or 1986, is that right?

A No.

Q Did --

A If it existed.

Q If it existed, certainly.

MR. POLGAR: Off the record a moment.

(Discussion off the record.)

BY MR. CAROME:

Q Back on the record.

One of the cables that does exist was a cable from [redacted] to Headquarters reporting the [redacted] pilot had said to groun[redacted] that he was carrying armaments of some sort, I don't know if it was missiles, but it was military equipment. Did you know of that cable at the time? Did Mr. George point that out to you?

A No. What cable was that?

Q That cable would have been received by the agency early in the morning, maybe 4:00 or 5:00 a.m. on November 25.

A No, I wasn't aware of that.

Q Jumping ahead -- well, let me ask you one more question on the November time period. Did you connect in your own mind the activity that went on over the November 23 through 25 period with the meeting that you and Mr. Casey had had, I guess with Mr. McFarlane on the 14th of November when Mr. McFarlane had mentioned there was an operation, at least under discussion, at that point involving the shipment of arms for hostages?

A No, I didn't connect it, and the reason is that McFarlane's comment dealt with the Israelis shipping arms to Iran and not the United States. The two didn't come together for me. Now you look at it, and you say, "Gee, why didn't that ring a bell?" It didn't ring a bell because he was talking about the Israelis doing something, and our operations was on oil drilling equipment, so I just didn't connect the two.

Q When did you become aware that Secord was playing a role in the NSC operation?

A Well, I thought when I -- on the 25th that Juchniewicz used the term "Secord". Since then he said, "No, I didn't say Secord, I told you it was North." I just wouldn't have picked Secord's name out of a hat. I felt he had to say it since I wrote it there, and I just don't know.

Q By, say, late January, what was your understanding of Secord's involvement in the operation? Late January, 1986.

A One as kind of the expediter, so to speak.

Q Did you perceive him playing any other role?

A No.

Q Did you have any knowledge in January, 1986 that a bank account under Secord's control was being used in connection with the transfer of money as payment for the missiles?

A I don't think we got around to bank accounts until February when we were asked to set up a Swiss bank account, and [redacted] the Director of Administration, came in to me and said, "Hey, the Director has asked us to set up a Swiss bank account to support the NSC operation." I said, "Well, we have a finding, so we can do that." And I think that was in the first part of February.

Q But as to a bank account under Secord's control, you are saying you don't have any knowledge of that?

A No, heavens no. [redacted]

Q Were you aware in the January, 1986 time period of discussions going on between Oliver North and Mr. Nir from Israel regarding joint covert operations to be run jointly by the United States and Israel?

A No.

Q Did you ever prior to these hearings learn anything about that?

A No. [redacted] But, no, I was not involved in the North-Nir arrangement.

Q And you didn't hear anything about it? Is that right?

A If I did, I don't remember it. It just doesn't register with me.

Q I have a last few questions on the December 7 meeting that you attended in the White House residence. You have already testified that one of the positions you advanced is that there were no moderates left in Iran. Were there any other arguments that you made against proceeding with the initiative?

A Yes. That whatever arms we supplied would end up in the front lines against the Iraqis, and that would be to the detriment of Iran arms balance.

Q Was there any discussion at that meeting about Ghorbanifar?

A Not that I recall.

Q I believe that Mr. Allen has testified that you told him later in December that you had advanced the position of the December 7 meeting that Ghorbanifar was not reliable and that that was another --

A I advanced that position, but I don't recall it being the 7th. I know I told Poindexter and McFarlane he was no good. But I don't recall it being brought out at the December 7 meeting.

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McGinn
fols.

BY MS. CAROME:

Q When was the earliest you would have told that Ghorbanifar was unreliable to either McFarlane or Poindexter?

A I can't put a time on it. It had to be when they talked to us about using Ghorbanifar. They started name tracing people that they met or were involved in with us and our nearest division came up with the fact that they had burned those out on this individual, and he was not reliable and I can remember telling Poindexter and McFarlane that. But I don't think I mentioned that at the 7 December meeting.

Q You have no recollection of Ghorbanifar coming up at that meeting, is that right?

A No.

Q What was the outcome as you recall of the December 7 meeting? What was decided? What was the next step?

A There was no decision. In fact -- no evident decision. The President left, and he was rushed out to make his 12 noon Saturday broadcast. He kind of said, "Well, why don't you just keep talking about it," and I think someone commented, either Shultz or Weinberger, "Well, what is there to say? We don't think this is a good idea." And we then got in the elevator and went down and I got out first and walked away, and Shultz was in back of me and Weinberger walked separately in back of him.

That was kind of the end of it. And I was quite surprised to find out that McFarlane left the next day to go to London.

Q That was not discussed at the meeting that you recall?

A Nope. I didn't learn about it until these hearings.

Q Do you have a firm recollection that that didn't come up?

A No, I don't know. But --

Q That is your best recollection?

A Best recollection.

Q What did you --

A It could not have come up because that would -- it would have been suggestive that the proposition was going forward and at that point in time Shultz and Weinberger had laid down across the tracks and they just, you know, were arguing this was a dumb idea and that is why when the President left he said, "You keep kind of discussing it."

But as far as they were concerned, I am convinced that it was going no place; that there was no decision. And I am sure they walked away with the same feeling.

Q When was the next point in time where you had some inkling that the operation was in fact proceeding after the December 7 meeting?

A Well, the most concrete one was on the 24th of January when Poindexter called me down and showed me the new signed finding.

Q Had you not been aware prior to the 24th of a finding being in the works?

A No. There were two other drafts I now understand, but I was not aware of them.

MR. LEON: Did you happen to turn to him at that point, Mr. McMahon, and say, "How about that November one? Can I take a look at that one while I am here and see if that one is signed?"

A Well, this one was very expansive, you know. The November was very tight, and this one was kind of give them the whole nine yards, including intelligence and everything else.

MR. LEON: Did he say to you this is the way I wanted the other one to be?

THE WITNESS: No, never mentioned it.

MR. LEON: The November 25 one never came up?

THE WITNESS: It never came up. But I tried to talk him out of the intelligence part, but he wouldn't listen, and he felt that we didn't have that much to lose. Give some TOWs, and again there it shows you as arms for hostages, because he said, "You know, all we would lose if they don't come through is a thousand TOWs and some intelligence and coming through was getting the hostage. You know, you give them something, you get something."

It was going in tranches.

BY MR. LEON:

Q You were trying to convince him to keep the exchange of intelligence out of the January 17 finding?

A Right, right.

Q But it was signed by then at that point when you saw it.

A Right.

BY MR. CAROME:

Q Did you perceive any differences in the operation laid out by Poindexter on January 24 and the operation that was being discussed at the meeting with the President on the 7th, putting aside the decision of providing intelligence to the Iranians?

A No. It was a little more specific and more encompassing. The discussion on the 7th centered around let's open a dialogue with Iran and try and get them into the Western orbit kind of thing. That was the whole context of that.

Q Do you recall what position Admiral Poindexter took at the December 7 meeting?

A I recall that he said very little. He made some supportive comments, but they were, you know, very short in transmis[illegible]y very much.

It was basically Bud McFarlane laying this all out, and then Shultz and Weinberger arguing and the President then took over the conversation, and you know, he kept postulating various possibilities of improving relations and what might come of that, and Shultz and Weinberger just challenging him.

Q Was McFarlane advocating going forward?

A I thought he was an advocate until this all happened, and when I look back on it, I think I am accurate in saying that [redacted] a messenger. He was saying, "Mr. President, here is an opportunity." But I don't think he had his heart in it when I look back on it. And that is a late perception.

Early on I thought that he was very much in back of it. But I am not sure that is the case now.

BY MR. LEON:

Q Did you report that meeting to Director Casey, what happened at it?

A Oh, yes.

Q When would that have been?

A In fact, probably the 10th, 7, 8 -- the 9th, whenever he got back in town. I think he may have been in New York, and that is why he didn't make the meeting, but whenever he came back. Then he went to kind of a follow-up meeting on the 10th.

BY MR. CAROME:

Q That would have been after McFarlane returned?

A Had gone.

Q Returned from London and was providing the President with a briefing on what went on.

A I think he said that McFarlane, if I remember a memo which I have seen recently -- McFarlane said, "Look, we are not going to ask you guys to do anything other than provide intelligence right now." So it was like it was all on hold.

MR. CAROME: I don't have any further questions.

MR. LEON: Just one follow-up on one thing that you just raised, Pat.

BY MR. LEON:

Q When you saw the January 17 finding on January 24, I think you said --

A Right.

Q -- were you aware at that point that Director Casey had known about it the January 17 finding prior to that?

A No.

Q Now, having learned about it on the 24th, you were empowered with a sense or clear in a sense to discuss it with him, were you not?

A Sure. I sent him a cable.

Q So did you share with him after the 24th of January, did you share with him your analysis or evaluation of it about the giving of intelligence over?

A Yes. I sent him a cable, I believe it was the 24th, when I came back from the meeting with Poindexter. He was [redacted] I told him there was a new dimension on this; that they wanted us to provide intelligence, etcetera, etcetera, and I explained how I objected to Poindexter on this, giving the Iranians a military edge, tactical edge, and that was all bad.

Q Did he respond along the lines of, well, I had known this before hand, and I had okayed it. I had blessed it?

A No. In fact, I had asked it be confirmed that he had seen it because I thought this was a whole new dimension of dramatic proportions, and I wanted the Director to have the opportunity to weigh in on it. That is why I sent him the cable. He didn't respond. He had moved on then, the next day when I learned he didn't answer me or didn't acknowledge receipt.

I then sent [redacted] He had moved on [redacted] and then I got confirmation back the Director had seen it.

Q Had seen the January 17 finding?

A Had seen my cable. Then I was content if he wanted to weigh in he had the opportunity to do so.

MR. CAROME: Did you ever have a subsequent conversation with Director Casey about your objection to the providing of intelligence?

THE WITNESS: I think I talked to him quite a bit. I thought I told him it was a lousy idea.

MR. CAROME: What did he say?

THE WITNESS: Well, I don't know at that time, but at some point in time, and I think it was in the December/January time frame, he said, "I think this is crazy." He used those terms.

MR. CAROME: What was he referring to being crazy?

THE WITNESS: The sending arms to Iran.

BY MR. LEON:

Q The whole initiative idea?

A The whole thing, yes, sir.

Q After the December 7 meeting?

A I don't know. I can't put it in a time frame, Richard. It was in the January/December time frame.

MR. CAROME: How about specifically about the providing of intelligence? Did Director Casey say anything about that to you?

THE WITNESS: No. The analysts, Gates and myself, were kind of depressed on that, but we had a specific

Presidential directive, and we went ahead and did it. We were able to mitigate it somewhat with Ollie North by providing intelligence, with his concurrence, that would have limited military value. It would be such that the Iranians could establish our bona fides by having knowledge of the Iraqi positions, but it would not be enough information which would permit a major breakout on the border.

And North went along with that, at least for openers.

Q The reason why I asked those questions at the end, Mr. McMahon, is because here you were learning about something on the 24th that the Director knew about before hand, and he learned on, I guess what you could characterize as a need-to-know basis because the group of people who knew about that initiative was extremely small, correct?

A Right.

Q So you were being brought into that very small group on the 24th for the first time.

A Right. In fact, I was quite surprised that the findings in the first week of January took place, and I didn't know about it. I wondered if I was traveling or something like that, but I don't think I was.

Q In your service as Deputy Director, was that a rather uncommon experience that something was so highly classified that the Director knew about it and you didn't know about it at all and learned about it at a later time?

A That was the only instance that I can recall.

MR. LEON: I don't think we have any further questions. I would like to conclude this by, again, on behalf of the Senate and on behalf of the House Committees and their staffs thank you very much for being extremely cooperative and giving so freely of your time under, I know, a very, very busy schedule that you have at Lockheed and your cooperation and your staff back at the office have been very helpful to all of us.

We just can't thank you enough for fitting us in as you have so generously in your schedule. Thank you again, Mr. McMahon.

THE WITNESS: Thank you. I wouldn't want it any other way. Appreciate it.

(Whereupon, at 12:45 p.m., the deposition was concluded.)

The Director of Central Intelligence

UNCLASSIFIED

6/1/87 mao

27 March 1984

MEMORAN[redacted]

The [redacted]le Robert C. McFarlane
Assistant to the President for
National Security Affairs

C 7490

SUBJECT: [redacted] Supp[redacted] Assistance to Nicaragua Program

1. In view o[redacted] possible difficulties in obtaining supplemental appropriations to carry out the Nicaraguan covert action project through the remainder of this year, [redacted] should explore funding alternatives [redacted] I believe your thought of putting one of your [redacted] the appropriate [redacted] should promptly be pursued. You will recall that the Nicaraguan project runs out of funds in mid-May. Although additional moneys are indeed required to continue the project in the [redacted]nt fiscal year, equipment and materiel made available from other sour[redacted]ght in part substitute for some funding. We are therefore currently ex[redacted]g two such alternatives. Please note, however, that we are unlikely to [redacted]e materiel assistance from these sources by mid-May.

2. The first of these [redacted]

3. The second alternative we are exploring is the procurement of [redacted] assistance from [redacted]

4. Finally, after examining legalities, you might consid[redacted]
appropriate private US citizen to establish a foundation that [redacted]
ecipient of nongovernmental funds which could be disbursed t[redacted]
ON.

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by B. Reger, National Security Council

William [redacted]

C/IN 3077

3959

Executive Registry [illegible]

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CL BY 0008074
RVW OADR

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[redacted]

ACTION

84 357382 [redacted] SP PAGE 001 [redacted] 357382

TOR: 0[redacted] MAR 84

C

S E C R [redacted] MAR 84 STAFF

CITE [redacted]

TO: PRIORI[redacted]

[redacted]

SUBJECT: [redacted] VISIT

REF: [redacted]

1. AT SAME DINNER AT HIS RESIDENCE MENTIONED REF, [redacted] RAISED WITH [redacted] POSSIBILITY OF YOUR VISIT AND THAT OF [redacted] WILL NEED A FEW WEEKS ADVANCE NOTICE IF YOU ARE INTERESTED. O[redacted]ER [redacted] MENTIONED THAT [redacted] WAS OPTIMISTIC OF POSITIVE SUPPORT TO [redacted] REQUESTS I[redacted] COMES HERE. THIS VISIT WOULD ONLY BE HA[redacted] IF VISIT ON, PLEASE BEAR THAT IN MIND, IN WHATEVER COORDINAT[redacted]ROCESS YOU HAVE IN MIND. GIVEN CURRENT SENSITIVITIES, MIGHT BE BE[redacted] STALL FOR A BIT ON THIS ONE.

2. NO FILE. DECL OADR DRV [redacted] SECRET.

END OF MESSAGE SECR[redacted]

3960

[redacted]

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C11N 3871

SECRET

[redacted]

[redacted] OUTGOING

84 3590 [redacted] ASR PAGE 001

TOT: 0 [redacted] MAR 84 DIRECTOR 866840

S E C R [redacted]

STAFF 0 [redacted] DIRECTOR [redacted]

TO: [redacted]

SUBJECT: VISITS T [redacted]

REF: [redacted]

1. [redacted]

[redacted] 2. I SHARED REF WITH [redacted] WHO WOUL [redacted] APPY TO VISI [redacted]
I THINK HOWEVER BEFORE WE PLAN S [redacted] TRIP THAT YOU SHOULD
POKE A [redacted] TO GET A BETTER IDEA [redacted] HE PREPARED TO PROVIDE,
UNDER WHAT CONDITIONS, ETC. [redacted] ALSO HA [redacted] HOMEWORK TO DO FROM
THIS END BEFORE HE COULD ACCEPT SUCH AN O [redacted] PLS LET US KNOW WHAT
YOU CAN FIND OUT. DECL OADR DRV HUM 4-82. [redacted] SECRET.>
ORIG: [redacted] REL: [redacted] B [redacted]

END OF MESSAGE SECRE [redacted]

OUTGOING MESSAGE

OUTGOING MESSAGE

OUTGOING MESSAGE

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3961

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DATE 18 MAY 1987
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CIIN 3872

~~SECRET~~
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[redacted] ACTION

84 3719 ASO PAGE 001 TOR: 2[redacted]MAR 84 IN 3719962

[redacted]

C

S E C R [redacted] STAFF

CITE [redacted]

TO: IMMEDIATE DIRECTOR.

[redacted]

SUBJECT: [redacted] ASSISTANCE TO NICARAGUA

REF: DIRECTOR 883762

1. SPOKE TO [redacted] A FEW DAYS AGO REGARDING CENTRAL AMERICAN/NICARAGUAN SITUATION. [redacted] BELIEVES SOME INDEPENDENT HELP FROM THE MILITARY HERE [redacted] POSSIBLE BOTH IN TRAINING AND EQUIPMENT. [redacted] FORSEES THESE BEING UNDERTAKNE ON DIRECT BASIS BETWEEN [redacted] AND [redacted] WITH [redacted] OFFERING BEHIND THE SCENES ADVICE OF WHERE TO PLUG IN AND WHAT ASSISTANCE WOULD BE TRULY USEFUL. HOWEVER [redacted] REMAINS OPEN TO SUGGESTIONS FOR OTHER APPROACHES.

2. [redacted] BELIEVE BEST HANDLED BY A VISIT FROM YOU WHICH WOULD BE MOST WELCOME ANY TIME, BUT WILL DISCUSS W [redacted] AND [redacted] UPON THEIR ARRIVAL. [redacted] URGES THIS APPROACH, AND WILL NO DOUBT USE YOUR TRAVEL AND MEETINGS HERE TO NAIL DOWN FINAL APPROVAL FOR SUCH SUPPORT.

3. DELAY BY [redacted] IN ADDRESSING ISSUE WAS CAUSED BY VERY HECTIC [redacted] BELIEVE ONCE COURSE OF COOPERATION AGREED UPON, WE CAN EXPECT EFFICIENT AND RAPID REACTION FROM THEM.

4. FILE: DEFER. DECL OADR DRV HUM 4-82. ALL SECRET.

END OF MESSAGE SECRET

[redacted]

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3962

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[redacted]

[redacted] OUTGOING

84 3713[redacted] ASO
PAGE 001
TOT: 23[redacted]MAR 84 DIRECTOR 883762

S E C R[redacted]
STAFF 23[redacted]DIRECTOR [redacted]
TO: IMME[redacted]
[redacted]

[redacted]

SUBJECT: [redacted] ASSISTANCE TO NICARAGUAN PROJECT

REFS: A. [redacted]
B. DIRECTOR 866849

FROM[redacted]

1. DURING A MEETING WI[redacted] ON 23 MARCH ON THE NICARAGUAN PROJECT, I MENTIONED TO HI[redacted] COMMENTS TO YOU IN REF A. HE SUGGESTED [redacted] SEND A CABLE TO [redacted] ASKING HIM TO MEET WITH[redacted]ING POSSIBLE SUPPORT.

2. I LEARNED FROM[redacted] THAT[redacted]NOT BE[redacted] DURING[redacted]S VISIT, AND THE PENU[redacted]E SENTENCE IN REF A SEEMS TO IMPLY THA[redacted] PROBABLY [redacted]O NOT RAISE THE MATTER WITH[redacted] PLEASE ADVIS[redacted]Y IMPRESSION IS CORRECT OR NOT AND WHETHER YOU HAVE HAD[redacted]NCE TO SOUND OU[redacted] ON WHAT HE IS PREPARED TO DO IN THE WAY[redacted]SISTANCE PER REF B. DECL OADR DRV HUM 4-82. ALL SECRET. [redacted]
ORIG: [redacted] (CLARRIDG[redacted]; REL:[redacted]CL[redacted]

END OF MESSAGE SEC[redacted]

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[redacted]

ACTION

84 3803226 ASO PAGE 001 IN 3803226

TOR: 02 [redacted] APR 84

[redacted]

S E C R [redacted] APR 84 STAFF

CITE [redacted]

TO: IMMEDIATE DIRECTOR

[redacted]

SUBJECT: [redacted] ASSISTANCE TO NICARAGUAN PROJEC [redacted]

REF: DIRECTOR 894326

[redacted] FROM [redacted] OUT OF TOWN. SHOULD BE ABLE TO CONTACT [redacted] TOMORROW MORNING. [redacted] WILL ADVISE. DECL OADR DRV HUM 4-82. ALL SECRET.

END OF MESSAGE SECR [redacted]

[redacted]

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[redacted] ACTION

84 3812[redacted] ASO PAGE 001 IN 3812408 [redacted]
TOR: 04[redacted] APR 84

S E C R[redacted]APR 84 STAFF

CITE [redacted]

TO: IMMEDIATE DIRECTOR [redacted]

SUBJECT: [redacted] ASSISTANCE TO NICARAGUAN PROJECT

REFS: A. [redacted]
B. DIRECTOR 894326

1. [redacted] WELCOMES [redacted] VISIT AND OPINES THAT HE SHOULD BE ABLE TO COME UP WITH A "MODEST BUT REASONABLE AMOUNT OF EQUIPMENT" PLUS A GOOD BILATERAL [redacted] TRAINING PROGRAM IN SHORT ORDER [redacted]

2. APPOINTMENT FO[redacted] WITH [redacted] SET FOR 17 APRIL AT 10 AM WITH LUNCH TO FOLLOW. [redacted] BELIEVES ADDITIONAL MEETINGS WILL BE NEEDED AND ASKS THAT [redacted] SPEND [redacted] MINIMUM 17 AND 18 APRIL [redacted]

3. RECOMMEND [redacted] TAKE [redacted] STAYING AT [redacted] RESIDENCE. SUGGEST [redacted] NEED TO GET RIGHT DOWN TO BUSINESS SHORTLY AFTER ARRIVAL THAT HE UPGRADE CLASS OF TRAVEL IF POSSIBLE.

4. REQUEST SPECIFIC GUIDANCE AS TO WHETHER [redacted] SHOULD BE APPRISED OF ABOVE VISIT, AND IF SO, WHAT IF ANYTHING SHOULD BE TOLD TO HIM REGARDING NATURE AND PURPOSE [redacted] CLAIMS THAT ENTIRE MATTER CLOSELY HEL[redacted] PLS CONFIRM ABOVE ARRANGEMENTS ACCEPTABLE SOONEST.

5. NO FILE, DECL OADR DRV HUM 4-82. ALL SECRET.

END OF MESSAGE SECRET

[redacted]

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[redacted] INCOMING

84 3822[redacted] ASO

PAGE 001
TOR: OS[redacted] APR 84 [redacted] IN 3822693

S E C R [redacted] APR[redacted] STAFF

CITE [redacted]

TO: IMMEDIATE [redacted].

[redacted]

SUBJECT: [redacted] TRAVEL

REF: DIRECTOR 897713

1. [redacted] WOULD NOW LIKE TO MOVE MEETING UP TO [redacted] IF [redacted] UNABLE TO MOVE TRA[redacted] MEETING WILL HAVE TO BE SOMETIME AFTER 23RD POSSIBLY [redacted]

2. PLEASE ADVISE SOONEST PREFERABLY [redacted]OSE OF BUSINESS HERE [redacted] SINCE [redacted] LIKE TO FIRM UP ARRANGEMENTS SOONEST IN VIEW OF TIGHT T[redacted]ME.

3. AS TO CONTACT, [redacted] DECL OADR DRV HU[redacted]. ALL SECRET.

CDO COMMENT: [redacted] SUGGESTS DISSEM TO [redacted]

END OF MESSAGE SECRET

[redacted]

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[redacted]

[redacted] INCOMING

84 3822[redacted] ASO PAGE 001 [redacted]

TOR: 05[redacted] APR 84

S E C R [redacted] STAFF

CITE [redacted]

TO: IMMEDIATE DIRECTOR.

[redacted]

SUBJECT: IDENTITY

REF: [redacted]

IDEN: [redacted]

DECL OADR DRV HUM 4-82. ALL SECRET.

END OF MESSAGE SECRET [redacted]

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[redacted]

[redacted] OUTGOING

84 3818[redacted] ASO

PAGE 001
TOT: 05[redacted] APR 84

DIRECTOR 897713 [redacted]

~~S-E-C-R~~[redacted]
STAFF 05[redacted] DIRECTOR [redacted]3
TO: IMME[redacted]
[redacted]

SUBJECT: [redacted] TRAVEL

REF: [redacted]

1. APPRECIATE REF. [redacted] WILL DEPART FOR [redacted]
[redacted] ON 15 APRIL AND WILL REMAIN FOR AS LONG AS NECESSARY.

2. RE PARA 4 REF. WILL ADVISE ON THIS ISSUE AS SOON AS POSSIBLE. DECL OADR DRV HUM 4-82. ALL SECRET.

ORIG: [redacted] (CLARRIDGE [redacted] REL: [redacted]CL [redacted]

END OF MESSAGE

[redacted]

OUTGOING MESSAGE

OUTGOING MESSAGE

OUTGOING MESSAGE

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(3968)

[redacted]

[redacted]

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CIIN 3879

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[redacted]

[redacted] OUTGOING

84 3825[redacted] ASO [redacted] PAGE 001
TOT: 05[redacted] APR 84 DIRECTOR [redacted]

S E C R[redacted]
STAFF 05[redacted] DIRECTOR [redacted]
TO: IMM[redacted]

[redacted]

[redacted]

SUBJECT: [redacted] TRAVEL

REF: [redacted]

[redacted] WILL ARRIVE [redacted] 10 APRIL [redacted]
[redacted] DECL OADR DRV HUM 4-82. ALL SECRET. >
ORIG: [redacted] (CLARRIDGE [redacted]; REL: [redacted] CL BY [redacted]

END OF MESSAGE ~~SECRET~~

[redacted]

[redacted]

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(3969)

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HSC + SSC

C/IN 3880

~~SECRET~~ UNCLASSIFIED

SECRET

[redacted] ACTION

84 385[redacted] ASO PAGE 001 IN [redacted]

TOR: 0[redacted] APR 84

S E C [redacted] 09[redacted] APR 84 STAFF

CIT[redacted]

TO: IMMED[redacted]OR INF[redacted]

[redacted]

SUBJECT: [redacted] VISIT

PLEASE PROVIDE RESPONSE ON HOW TO HANDLE [redacted] VISIT WITH [redacted] BY OPENING OF BUSINESS TUESDAY, APRIL 10. [redacted] RETURNS TO [redacted] FROM [redacted] MID-DAY TUESDAY). FROM THIS VANTAGE POINT SUGGEST PRESENTATION AS FOLLOW-UP ON [redacted] PROMISE AT JANUARY DISCUSSIONS TO PROVIDE "INSIDE" BRIEFING ON DEVELOPMENTS IN CENTRAL AMERICA WOULD SUFFICE. WOULD [redacted] ADDITION EXPLAIN THAT SUDDENNESS OF VISIT RESULT OF UNEXPECTED [redacted]DOW IN [redacted] SCHEDULE AND AVAILABILITY OF APPROPRIAT[redacted]COULD TAILOR FURTHER BRIEFINGS IN MORE MEASURED MANNER DEPEN[redacted] ON RESULTS O[redacted] DISCUSSIONS AT A LATER DATE. DECL OADR [redacted] HUM 4-82. ALL SECRET.

END OF MESSAGE SEC[redacted]

[redacted]

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under provisions of E.O. 12356
by B. Reger, National Security Council

3970

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~~SECRET~~

REVIEWED FOR RELEASE
DATE 15 MAY 1987
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CIIN 3881

~~SECRET~~

[redacted] ACTION

84 40410[redacted] ASO PAGE 001
TOR: 0[redacted]MAY 84 [redacted]

S[redacted]MAY[redacted]STAFF

CITE [redacted]

TO: IMMEDIA[redacted]

[redacted]

SUBJECT: DISCUSSIONS WIT[redacted]

REF: [redacted]

1. SHORTLY AFTER REF SENT [redacted] MEETING [redacted] TO DISCUSS STEPS TO IMPLEMEN[redacted]EF DISCUSSIONS. IMPLICIT WAS [redacted] WILLINGNESS TO PROCEED [redacted]WITH. NOW NEED REF REPLY BY CLOSE OF BUSINESS [redacted] TOMORROW.

2. NO FILE. DECL OADR DRV HUM 4-82. [redacted] SECRET.

END OF MESSAGE

[redacted]

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3971

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~~SECRET~~

C1IN 3982

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SECRET

[redacted]

OUTGOING

84 404[redacted]

PAGE 001

TOT: 0[redacted] MAY 84 DIRECTOR 928788

S-E-C-R-E-T [redacted]

STAFF 0[redacted] DIRECTOR [redacted]

TO: IMM[redacted]

[redacted]

SUBJECT: DISCUSSIONS WITH [redacted]

REF: [redacted]

FROM [redacted]A

1. CURRENT FUROR HERE OVER THE NICARAGUAN PROJECT URGES THAT WE POSTPONE TAKING [redacted] UP ON THEIR OFFER OF ASSISTANCE. PLEASE EXPRESS TO [redacted] MY DEEP REGRET THAT WE MUST DO THIS, AT LEAST FOR THE TIME [redacted] AND I FULLY REALIZE THAT HE CANNOT CRANK UP ASSISTANCE ON A [redacted]T'S NOTICE, SHOULD WE DECIDE TO GO FORWARD IN THE FUTURE.

2. [redacted]

DECL OADR DRV HUM 4-82. ALL SECRET. [redacted]

ORIG: [redacted]CA (CLARRIDGE X[redacted]) REL: C [redacted]CL BY [redacted]

END OF MESSAGE

- File

[redacted]

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3972

A

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C11N 3883

~~SECRET~~

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~~SECRET~~

[redacted] OUTGOING

OUTGOING MESSAGE OUTGOING MESSA[redacted] ING MESSAGE

84 385[redacted] ASO PAGE 001
TOT: 0[redacted]APR 84 DIRECTOR 902801

~~S E C R~~[redacted]
STAFF 0[redacted] DIRECTOR [redacted]
TO: IMMEDIAT[redacted]

SUBJECT: VISIT OF [redacted]

REF: [redacted]

1. [redacted] IN ABSENCE O[redacted] WAS BRIEFED ON 6 APRIL RE REF TRIP. HE ASKS THAT [redacted] BE BRIEFED, STRESSING BILATERAL- [redacted] - NATURE OF ANY SUCH COOPERATION WITH OUR ROLE LIMITED TO THAT OF HONEST BROKER. SECSTATE HAS BEEN BRIEFED ON THE INITIATIVE AND APPROVES. ALL MESSAGES ON THIS SUBJECT SHOULD BE CONFINED TO THIS CHAN[redacted]

2. NO FILE. DECL OADR DRV HUM 4-[redacted] ALL SECRET.
ORIG[redacted] AUTHEN: [redacted] REL[redacted]L BY [redacted]

END OF MESSAGE S[redacted]

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3973

A

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3884

~~SECRET~~ UNCLASSIFIED

SECRET

[redacted] [redacted]

OUTGOING

84 3871[redacted]ASO

PAGE 001

TOT: 10[redacted] APR 84 DIRECTOR 904514

SECRET[redacted]

STAFF 1[redacted]DIRECTOR 904514

TO: IM[redacted]

NIACT[redacted]

[redacted]

[redacted]

SUBJECT: [redacted] DISCUSSIONS WITH [redacted]

1. DDCI ADVISES THAT THERE ARE SOME SECOND THOUGHTS AROUND TOWN AS TO WISDOM OF INVOLVI[redacted] IN ALREADY COMPLICATED CENTRAL AMERICAN EQUATION. REQUEST YOU HOLD OFF ON THIS ASPECT OF YOUR DISCUSSIONS UNTIL WE CAN GET DEFINITIVE WORD TO YOU.

2. [redacted]

3. WILL ADVISE SOONEST. NO FILE[redacted]CL OADR DRV HUM 4-82.>

ORIG: [redacted] REL[redacted] CL B[redacted]

END OF MESSAGE

SE[redacted]

[redacted]

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3974

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UNCLASSIFIED

[redacted]

[redacted] ACTIC

84 38[redacted] ASO PAGE 001 [redacted]
TOR: 1[redacted] APR 84 [redacted]

- -

S-E-C[redacted]T 12[redacted] APR 84 STAFF

CIT[redacted]

TO: [redacted]

[redacted]

SUBJECT: [redacted] ARRIVAL

[redacted] ARRIVES [redacted] NATIONAL AIRPORT 13 APRIL [redacted] LOCAL. PLS ADVISE OFFICE AND WIFE. DECL OADR DRV [redacted] ALL SECRET.

END OF MESSAGE SECRET

[redacted]

[redacted]

[redacted]

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3975

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C/IN 3886

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UNCLASSIFIED [redacted]

ACTION

[redacted]

84 4039535 [redacted] 50 PAGE 001 IN 4039535
TOR: 0[redacted] MAY 84 [redacted]

S[redacted] MAY 84 STAFF

CIT[redacted]

TO: IMMED[redacted]

[redacted]

SUBJECT: RE[redacted] DISCUSSIONS WITH[redacted]

REF: [redacted]

1. ANY WORD TO PASS[redacted] ON RECENT REF DISCUSSIONS. HAVE BEEN ABLE BY AVOIDANCE OF PERSONAL MEETING TO DELAY RESPONSE TO DATE, BUT LOCAL CIRCUMSTANCES NOW DICTATE NEED TO SE[redacted] SOONEST. IF NO DECISION YET REACHED, WILL TEMPORIZE ACCORDINGLY.

2. NO FILE. DECL OADR DRV HUM 4-82. [redacted] SECRET.

END OF MESSAGE ~~SECR~~[redacted]

[redacted]

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McMahon Ex #-
6/1/87 mao

MEMO[illegible]E RECORD

F[illegible]nley Sporkin
General Counsel

C007808

S[illegible]:	Nicaragua

[illegible] hours today, the Director and I attended a meeti[illegible]torney General Smith, D. Lowell Jensen and Mary La[illegible]oncerning Nicaragua. The DCI explained that the funds to support the current Nicaragua program were running out and that he wanted to discuss the legal limits of the options available to the government. The DCI mentioned that he was at a recent NSPG meeting where he had been requested to discuss the matter informally with the Attorney General. The DCI said one proposal being considered involved other nations in the region [illegible]iding aid to the Nicaraguan Contras. After a discussio[illegible] Attorney General stated that he saw no legal concer[illegible]he United States Government discussed this matter with [illegible] nations so long as it was made clear that they would [illegible]ng their own funds to support the Contras and no [illegible]ppropriated funds would be used for this purpose. The [illegible]ney General also said that any nation agreeing to supp[illegible] could not look to the United States to repay that [illegible]tment in the future. The DCI made it clear that if th[illegible]s a possiblity this option might be used, he would advi[illegible]e CIA oversight committees.

2. Mary Lawton suggested that a specific written statement might be developed to make clear to cooperating nations that any decision to provide further assistance to the resistance in Nicaragua would be made without any monetary promises or inducements from the United States Government which would expect them to take steps to assure that no U.S. appropriated funds would be involved in the program.

3. The DCI thanked the Attorney General [illegible]taff for their assistance and said he welcomed thei[illegible]dvice and their general views on this matter.

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3977

Stanley [illegible]kin

[illegible]57

ALL PORTIONS ~~SECRET~~

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CL BY 986573
DECL OADR
DERIVED FROM HUM 4-82

C11N 3098

Distribution: OGC-85-5006 **UNCLASSIFIED**

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1 - Subject - Covert Action

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Executive Registry
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ROUTING			
TO	NAME AND ADDRESS	DATE	INITIALS
1			
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3			
4			

	ACTION		DIRECT REPLY		PREPARE REPLY
	APPROVAL		DISPATCH		RECOMMENDATION
	COMMENT		FILE		RETURN
	CONCURRENCE		INFORMATION		SIGNATURE

REMARKS

FROM NAME ADDRESS AND PHONE NO	DATE

~~TOP SECRET~~ 2707
(Security Classification)

15 Mar 85 Meeting w Sec and Dep Sec Defense

CONTROL NO. SC 02008-85

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McMahon Ex. #4
6/1/87 mao

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Intelligence Sources and Methods Involved
NATIONAL SECURITY INFORMATION
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~~TOP SECRET~~
(Security Classification)

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C 2708

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Meeting w/Secretary and Deputy
Secretary Defense 15 Mar 85

3979

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UNCLASSIFIED

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65- 1088

C 2710

15 March 1985

MEMORANDUM FOR: THE RECORD

SUBJECT: Breakfast with Secretary and Deputy Secretary of Defense, 15 March 1985

3979

Partially [illegible] 31 Aug 87

UNCLASSIFIED

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[illegible] 26187

UNCLASSIFIED

C 2711

7. Question of the support to the Contras came up. The Director noted that we should have another meeting on it but following last week's meeting of the LSG we tended to be leaning towards non-lethal aid. I described the assignment given to Motley to develop different options which could be packaged and then played against Senators Lugar and Durenberger to see what combination of options in a single package might be acceptable to Congress. But I noted at the meeting that there was no agreement that we would be limited to non-lethal aid. The Director said that McFarlane was to meet with Lugar and Durenberger today. In closing the Secretary stated that he had heard that [redacted] had earmarked $25 million for the Contras in $5 million increments.

John N. McMahon

cc DDI
DDO
EA/DDCI
EA/DCI
Exec. Sec.
Exec. Registry

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1323

5 pgs
withheld in
entirety

(C2712, C2713, C2714, C2715, C2716)

3980

George Ex #3

UNCLASSIFIED

National Security Council
The White House

System # ____________

Package # ____________

N 7417

McMahon Ex #5
6/1/87 mao

	SEQUENCE TO	HAS SEEN	DISPOSITION
Paul Thompson			
Bob Kimmitt			
John Poindexter	1	J	
Tom Shull			
Wilma Hall			
Bud McFarlane	2	M	A
Bob Kimmitt			
NSC Secretariat			
Situation			
	3	Ψ	

I = Information   A = Action   R = Retain   D = Dispatch   N = No further Action

cc: VP Meese Baker Deaver Other ____________

COMMENTS

Should be seen by: ____________
(Date/Time)

Bud,

I have told Clair to plan to go [illegible]

Confirm when he calls me in the morning. Please call me after you have read this.

J

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(398)

[redacted]

82-720 339

[redacted]

ROUTING

To	Name and Address	Date	Initials
1	Robert McFarlane		
2			
3			
4			
5			
6			

EYES ONLY

X	ACTION		FILE
	APPROVAL		INFORMATION
	COMMENT		PREPARE REPLY
	CONCURRENCE		RECOMMENDATION
	DIRECT REPLY		RETURN
	DISPATCH		SIGNATURE

REMARKS

cc: Oliver North (#2 and

UNCLASSIFIED

~~TOP SECRET~~ SENSITIVE

EYES ONLY

N 7419

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~~TOP SECRET SENSITIVE~~

~~TOP SECRET~~

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MEMORANDUM

SYSTEM IV
[illegible]

NATIONAL SECURITY COUNCIL

June [illegible] 1985

~~TOP SECRET~~

ACTION

EYES ONLY

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: OLIVER L. NORTH

SUBJECT: Status of Hostage Recovery Efforts

The two independent hostage recovery activities briefed [illegible] Saturday have proceeded as follows.

[redacted]

~~TOP SECRET~~
Declassify: OADR

UNCLASSIFIED

~~TOP SECRET~~

~~TOP SECRET~~ UNCLASSIFIED EYES ONLY

[redacted]

DEA operation. At the request of the two DEA officers who originated the contact in Lebanon, I met with their asset in Washington. Last week, their intermediary expressed concern with proceeding with the operation based on the instability inside Lebanon. In response to their urgings (the DEA officers were made aware of the possibility that the Dawa prisoners could be executed shortly after the end of Ramadan--June 19) and the death of one of his contacts inside Lebanon, he has now agreed to proceed as follows:

-- He will depart Saturday, June 8, and meet [redacted] contact in Europe as well as a [redacted] who was the secondary contact inside Lebanon. He will urge [redacted] to return to Lebanon and arrange for a meeting on Cyprus among one DEA officer [redacted] himself, and [redacted]

-- Once contact has been established and a meeting arranged, the two DEA officers will depart for Cyprus via Vienna where they will deposit the $200K and establish an account for the $2M ($500K of which will be available immediately in U.S. dollars cash for use in Lebanon). [redacted] will then proceed to the meeting indicated above.

~~TOP SECRET~~ UNCLASSIFIED EYES ONLY

N 7421

-- The primary DEA contact [redacted] believes that the hostages can be bribed free for $1M a piece as follows:

- The $200K will be sufficient to bribe [redacted] money will be passed [redacted]

- [redacted] transport [redacted]

- Transport [redacted] will cost in excess of $250K apiece in order to bribe [redacted] believes that the $200K in cash will be sufficient to establish bona fides to [redacted] to agree to passage of at least 2 hostages. Once the operation is underway and the hostages are through [redacted] will be provided with $500K in cash.

- [redacted] will turn the hostages over to [redacted] where they will be placed aboard a rented yacht for transport to Cyprus.

- One of the DEA officers [redacted] will have proceeded to Cyprus to rent a safehouse as a temporary holding location in the event that all hostages are not recovered in the first attempt.

- The remaining $1.5M made available by the donor will be released from the account in Vienna as soon as the hostages are aboard the yacht and at sea [redacted] These funds will be used to pay [redacted]

It is assumed that the price cannot be negotiated down given the number of people requiring bribes. Both the DEA and [redacted] believe that this effort will produce two hostages and that additional hostages will be released for $1M each. The safehouse will be used to harbor/treat the first two hostages while arrangements (both financial and operational) are being made for the remaining hostages. [redacted] believes that 72-96 hours would be required for a second round. This assumes that additional funding is available on a near real-time basis. The donor is aware that the price being asked is $1M each. He is unaware that we are proceeding with a plan to release only two if the price does not come down.

UNCLASSIFIED EYES ONL

~~TOP SECRET~~

N 7422

The DEA officers are prepared to take leave as soon as they are contacted by [redacted] Travel arrangements and operational costs are currently being financed from funds normally available to the Nicaraguan resistance. Our normal point-of-contact in the resistance for these matters is not yet aware.

Summary. As discussed with ADM Poindexter, it appears that both these plans can proceed simultaneously without undue concern for compromise or mutual jeopardy. Given that arrangements for the DEA operation will take considerable time (contacts inside Lebanon, financial transactions, and rental of yacht/safehouse), [redacted]

RECOMMENDATIONS

1. That you approve proceeding with the plans outlined above.

Approve ____ · Disapprove ____

2. That you contact the Attorney General and ask that the two DEA officers [redacted] be placed on temporary detail to the NSC for a period of 30 days.

Approve 6/9 Disapprove ____

RCM

North to [illegible] [illegible] AG

Attachments [redacted]

UNCLASSIFIED EYES ONL

~~TOP SECRET~~

UNCLASSIFIED 4/1/87 mas 150

7 DECEMBER 1986 5332
7:00 p.m.

DCI [illegible] BEFORE THE HOUSE APPROPRIATIONS COMMITTEE
[illegible] 8 DECEMBER 1986

AS [illegible] KNOW, I TESTIFIED BEFORE OUR TWO CONGRESSIONAL OVERSIG[illegible]MMITTEES ON 21 NOVEMBER. IT WASN'T UNTIL THREE DAYS LATE[illegible] THE END OF THE DAY ON MONDAY, THAT I LEARNED FROM THE PRESIDENT'S CHIEF OF STAFF THAT THE ATTORNEY GENERAL HAD UNCOVERED GOOD EVIDENCE THAT SOME OF THE IRANIAN FUNDS MADE AVAILABLE FOR ARMS PURCHASES MAY HAVE BEEN DIVERTED TO THE CONTRAS. AS YOU KNOW, ON THE NEXT DAY THE PRESIDENT ANNOUNCED THAT ADMIRAL POINDEXTER AND LIEU[illegible] COLONEL NORTH HAD RESIGNED FROM THE NSC STAFF.

RIGHT NOW, MY INSPECTOR GENER[illegible] PULLING TOGETHER A BROAD AND SYSTEMATIC REPORT ON CIA'S [illegible]MENT IN THE IRANIAN OPERATION. BUT I CAN TELL YOU THAT THE TESTIMONY I GAVE OUR OVERSIGHT COMMITTEES ON 21 NOVEMBER REMAINS ACCURATE ON WHAT WE KNEW AT THAT TIME. I CAN ALSO TELL YOU THAT CIA WAS NOT INVOLVED IN ANY DIVERSION OF IRANIAN FUNDS.

BEFORE I GIVE YOU THE ESSENTIALS OF CIA'S INVOLVE[illegible]D LIKE TO SAY SOMETHING ABOUT THE RATIONALE BEHIND TH[illegible] OPERATION. OVER THE LAST FIVE YEARS, MUCH THOUGHT [illegible] EFFO[illegible] HAS BEEN DEVOTED TO HOW WE MIGHT DEVELOP CONTACTS [illegible] RELATIONSHIPS WHICH WOULD PROVIDE A BETTER UNDER[illegible]DING OF

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DO 447

CIIN 2226/A

~~SECRET~~

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5833

WHAT WAS HAPPENING THERE AND HOW WE MIGHT ESTABLISH CONTACTS AND RELATIONSHIPS WHICH COULD LEAD TO IMPROVED RELATIONSHIPS LATER ON[redacted]

I[redacted] SPEAKING TO [redacted] ABOUT THE IMPORTANCE OF OUR IDENTIF[redacted] ESTABLISHING CONTACT WITH LEADERS IN A FUTURE IRAN. [redacted] IN HIS ~~MOST DRAMATIC MANNER,~~ [redacted] SAID THAT WE DO NOT KNOW WHO WILL EMERGE TO LEAD IRAN IN THE FUTURE, BUT THAT WE MUST GATHER ALL THE STRANDS AND HOLD THEM IN OUR HANDS SO THAT WE WILL BE READY. THAT'S ABOUT WHA[redacted]DID FOR SOME FOUR YEARS.

IN THE EARLY FALL OF 1985, B[redacted]FARLANE, AFTER ONE OF THE WEEKLY MEETINGS WHICH HE AND HIS [redacted]TY HAD WITH ME AND MY DEPUTY, ASKED ME TO STAY BEHIND[redacted]TOLD ME ABOUT DISCUSSIONS HE HAD HAD AT THE HIGHEST LEVELS[redacted]SRAEL URGING THE DESIRABILITY OF DISCUSSIONS WITH OFFICIALS IN IRAN AND OFFERING CHANNELS OF ACCESS. HE TOLD ME THAT, FOR OBVIOUS REASONS, ONLY A HANDFUL OF PEOPLE IN THE ISRAELI AND AMERICAN GOVERNMENTS WERE TO BE TOLD ABOUT THIS EFFORT. I DISTINCTLY RECALL McFARLANE EMPHASIZING THAT THE PURPOSE OF SUCH DISC[redacted] WOULD BE THE FUTURE RELATIONSHIPS WITH IRAN AND IR[redacted] IMPORTANCE IN THE EAST-WEST AND MIDDLE,EAST-PERS[redacted]LF EQUATION.

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C11N 2224/A

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C 5834

CIA'S INVOLVEMENT IN THE OPERATION BEGAN ON FRIDAY, 22 NOVEMBER. AT THAT TIME LIEUTENANT COLONEL NORTH ASKED FOR HELP IN [illegible]ABLE COMMERCIAL CARRIER THAT COULD CARRY CARGO T[illegible] UNSPECIFIED MIDDLE EASTERN DESTINATION. HE WAS PROVIDED THE NAME OF A CIA AIR CARGO PROPRIETARY IN EUROPE THAT ROUTINELY ACCEPTS NORMAL COMMERCIAL BUSINESS. OUR OFFICERS WERE TOLD [illegible] THAT THE CARGO WAS TO BE OIL FIELD DRILLING EQUIPMENT. OUR PROPRIETARY WAS SO INFORMED BY HEADQUARTERS.

OUR PROPRIETARY DID INDEED FLY TO TEL AVIV ON SATURDAY, 23 NOVEMBER. FROM THERE IT CARRIED A CARGO TO IRAN ON 24 NOVEMBER. TO THE BEST OF OUR [illegible]EDGE, NEITHER THE ISRAELIS NOR THE IRANIANS KNEW [illegible] WERE DEALING WITH A CIA PROPRIETARY. IT WAS NOT UNTIL AF[illegible] DELIVERY OF THE CARGO THAT ANYONE IN CIA MANAGEMENT WAS AWARE [illegible] THE CARGO WAS ANYTHING OTHER THAN OIL DRILLING EQUIPMENT [illegible] HAD BEEN REPRESENTED TO THEM. THE AIRLINE WAS PAID AT TH[illegible]MAL COMMERCIAL RATE WHICH AMOUNTED TO ABOUT $127,700.

I WAS OUT OF THE COUNTRY AT THE TIME. THE ACTING DCI, JOHN McMAHON, DID NOT LEARN THAT A CIA PROPRIETARY FLIGHT FROM ISRAEL TO TEHRAN HAD OCCURRED UNTIL MONDAY MORNING, 25 NOVEMBER. HE THEN IMMEDIATELY INFORMED THE CIA[illegible] COUNSEL AND DIRECTED THAT WE WOULD NOT FACILITATE [illegible]ER FLIGHTS INTO IRAN IN THE ABSENCE OF A PRESIDENTIA[illegible]

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C 5835

THE FOLLOWING DAY, 26 NOVEMBER, I RETURNED FROM OVERSEAS. A DRAFT FIND[illegible] PREPARED BY OUR GENERAL COUNSEL'S OFFICE AND I SE[illegible]ITE HOUSE FOR CONSIDERATION AND APPROVAL.

THI[illegible]ISODE TOOK PLACE OVER A WEEKEND AND UNDER SOMEWHAT UNUSUAL [illegible]MSTANC[illegible] LTC NORTH HAD ALSO INFORMED US THAT AN IMPORTANT [illegible] UNDERWAY IN GENEVA THAT WEEKEND INVOLVING IRANIAN OFFICIALS AND THE POSSIBLE RELEASE OF AMERICAN HOSTAGES. HE MADE IT CLEAR THAT HIS REQUEST FOR FLIGHT ASSISTANCE WAS RELATED TO THIS MEETING. AT THE TIME, WE SAW NO REASON TO STOP WHAT CLEARLY WAS AN ONGOING, SENSITIVE NSC OPERATION BY DENYING THE USE OF O[illegible]OPRIETARY AIRLINE ON A COMMERCIAL BASIS.

e

THE DRAFT FINDING WE HAVE PRO[illegible] THE WHITE HOUSE WAS DISCUSSED AND REVISED OVER THE NE[illegible]W WEEKS. THE PRESIDENTIAL FINDING FINALLY SIGNED ON 17 JANUARY 1986 DIRECTED THE CIA TO PROVIDE SUPPORT FOR A PROGRAM AIMED AT
(1) ESTABLISHING A MORE MODERATE GOVERNMENT IN IRAN,
(2) OBTAINING INTELLIGENCE TO DETERMINE THE CURRENT IRANIAN GOVERNMENT'S INTENTIONS WITH RESPECT TO ITS NEIGHBORS [illegible] WITH RESPECT TO TERRORIST ACTS, AND (3) FURTHERING THE RE[illegible] OF AMERICAN HOSTAGES HELD IN BEIRUT AND PREVENTING FU[illegible] TERRORIST ACTS BY THESE GROUPS.

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C 5336

IT WENT ON TO SAY THAT THE USG WOULD PROVIDE MODERATE ELEMENTS WITHIN AND WITHOUT THE GOVERNMENT OF IRAN WITH ARMS, EQUIPMENT [illegible]ATERIEL IN ORDER TO ENHANCE CREDIBILITY OF THESE [illegible]ENTS IN [illegible]IR EFFORTS TO ACHIEVE A MORE PRO-U.S GOVERNM[illegible] IN IRAN BY DEMONSTRATING THEIR ABILITY TO OBTAIN RESOURCE[illegible] DEFEND [illegible]IR COUNTRY. IT WAS PROVIDED THAT SUPPORT [illegible]TINUED IF THE U.S. GOVERNMENT LEARNS THAT THESE ELEMENTS HAVE ABANDONED THEIR GOALS OF MODERATING THEIR GOVERNMENT AND APPROPRIATED THE MATERIEL FOR PURPOSES OTHER THAN THAT PROVIDED BY THIS FINDING.

IN THE FINDING, THE PRESIDENT [illegible]IED THE CIA TO REFRAIN FROM REPORTING THE FINDING TO THE [illegible]ESS UNTIL OTHERWISE DIRECTED. THE FINDING WAS REVIEWE[illegible]D CONCURRED IN BY THE ATTORNEY GENERAL.

AT THE TIME THE PRESIDENTIAL [illegible]NG WAS BEING DRAFTED, THE CIA'S OFFICE OF GENERAL COUNSEL PROVIDED THE LEGAL OPINION THAT THE PRESIDENT HAS THE AUTHORITY TO WITHHOLD PRIOR NOTICE OF OPERATIONS FROM THE CONGRESS. SECTION 501 OF THE NATIONAL SECURITY ACT EXPRESSLY PROVIDES THAT NOTIFICATION OF INTELLIGENCE ACTIVITIES TO THE CONGRESS SHALL BE PROV[illegible] THE EXTENT CONSISTENT WITH ALL APPLICABLE AUTHORITIE[illegible] DUTIES, INCLUDING THOSE CONFERRED BY THE CONSTITUT[illegible]

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THE ACT ALSO STATES THAT THE INTELLIGENCE COMMITTEES BE INFORMED OF ACTIVITIES FOR WHICH NO PRIOR NOTICE WAS GIVEN AT THE APPROP[illegible] DETERMINED BY THE PRESIDENT. INTELLIG[illegible] COMMUNI[illegible] LAWYERS HAVE ALWAYS HELD THAT EXTRAOR[illegible]Y CIRCUMSTANCES COULD LEAD THE PRESIDENT TO CONCLUDE [illegible] NOTICE [illegible] AN OPERATION SHOULD BE WITHHELD, IN WHOLE OR [illegible] FOR A PERIOD DEPENDING ON THE CIRCUMSTANCES DETERMINED BY THE PRESIDENT. IN THIS INSTANCE, THE PRESIDENT DETERMINED ~~THAT~~ IF THE FACT OF THIS PROGRAM BECAME KNOWN, THOSE CARRYING OUT THE DIALOGUE (BOTH U.S. AND IRANIAN) AND THE AMERICAN HOSTAGES IN LEBANON WOULD BE PUT AT A GREATER RISK.

NOW LET ME GO OVER THE ACTIV[illegible] THAT WERE UNDERTAKEN BY THE CIA IN CARRYING OUT THE DIREC[illegible] CONTAINED IN THE FINDING OF 17 JANUARY 1986. ON 5-7 FEBRU[illegible]1986, U.S. [illegible] REPRESENTATIVES, A REPRESENTATIVE [illegible] THE ISRAELI PRIME MINISTRY, AND A SENIOR-LEVEL IRAN[illegible] OFFICIAL MET IN GERMANY. AT THIS MEETING, THE U.S. SIDE EMPHASIZED ITS DESIRE TO ENTER INTO A STRATEGIC DIALOGUE WITH THE IRANIAN SIDE. THE IRANIANS RAISED THEIR DESIRE TO RECEIVE U.S. WEAPONS. THE U.S. AGREED TO EXPLORE THIS POSSIBILITY. WORKING WITH THE ISRAELIS, THE FOLLOWING MECHANISM FOR TRANSFER OF THE WEAPONS WAS E[illegible]HED:

-- THE IRANIAN INTERMEDIARY WOULD DEPOSIT FU[illegible] ISRAELI ACCOUNT.

-- THE FUNDS WOULD THEN BE TRANSFERRED TO A [illegible]ILE U.S.-CONTROLLED ACCOUNT IN AN OVERSEAS BANK.

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-- USING THESE FUNDS, THE CIA WOULD WORK WITH THE ARMY LOGISTICS COMMAND TO OBTAIN THE MATERIEL.

-- TH[illegible] WOULD THEN BE TRANSPORTED TO ISRAEL FOR

PRESS ALLEGATIONS THAT IRANIAN MONEY PLACED IN CIA ACCOUNTS WERE DIVERTED TO OTHER COVERT ACTION PURPOSES ARE COMPLETELY FALSE. A TOTAL OF $12.2 MILLION WAS DEPOSITED INTO CIA-CONTROLLED ACCOUNTS [redacted] BETWEEN FEBRUARY AND OCTOBER OF THIS YEAR. THE FIRST THREE DEPOSITS, TOTALING $10.2 MILLION, WERE MADE INTO THE ACCOUNT [redacted]

[redacted]

-- ON 10 FEBRUARY, $1.85 MI[redacted] WAS DEPOSITED INTO THIS ACCOUNT.

-- AN IDENTICAL DEPOSIT WAS [redacted] ON 11 FEBRUARY.

-- ANOTHER DEPOSIT OF $6.5 M[redacted]ON WAS MADE INTO THE ACCOUNT ON 15 MAY.

IN LATE JULY 1986 [redacted] WE CLOSED THE BANK ACCOUNT THAT HELD FUNDS FOR THE IRANIAN OPERATIO[redacted] THIS SECOND ACCOUNT WAS ALSO NO[redacted]ED FOR THE [redacted]

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IRANIAN PAYMENTS. THE FINAL DEPOSIT OF $2 MILLION INVOLVED IN THE IRANIAN OPERATION WAS MADE INTO THE SECOND ACCOUNT ON 29 OCTOBER. C 5839

ALL DEPOSITS INTO THE [redacted] ACCOUNTS WERE MADE VIA ELECTRONIC FUNDS TRANSFER. THE AGENCY MERELY PROVIDED THE ACCOUNT NUMBER TO THE NSC STAFF, WHICH THEN ARRANGED FOR DEPOSITS INTO THE ACCOUNT. OUR REPRESENTATIVES [redacted] WERE INFORMED WHEN A DEPOSIT WAS MADE, AND THIS INFORMATION, TOGETHER WITH AUTHORITY TO SPEND THE FUNDS, WAS THEN TRANSFERRED ELECTRICALLY TO CIA HEADQUARTERS. WE UNDERSTAND FROM THE NSC STAFF THAT THE DEPOSIT WENT THROUGH SEVERAL INTERMEDIARIES BEFORE REACHING OUR ACCOUNT [redacted]

THE DEPOSITS OF IRANIAN MONEY TO OUR [redacted] ACCOUNTS WERE TIMED TO COVER THE ESTIMATED COSTS OF PREPARATION AND DELIVERY OF A TOTAL OF 2,008 TOW MISSILES AND A VARIETY OF HAWK MISSILE EQUIPMENT.. ALL OF THIS WAS ACQUIRED FROM THE DEPARTMENT OF DEFENSE. NONE OF THE WEAPONS CAME FROM CIA STOCKS.

-- ON 15 FEBRUARY, WE DELIVERED 1,000 TOW MISSILES TO KELLY AIR FORCE BASE FOR SHIPMENT. THESE WEAPONS HAD BEEN PICKED UP AT REDSTONE ARSENAL, TRUCKED TO [redacted] [redacted] FOR PACKING, THEN TRANSPORTED TO KELLY WHERE WE SURRENDERED CONTROL. THIS SET OF WEAPONS TOGETHER WITH CHARGES FOR GROUND TRANSPORTATION;

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GUARDS, THE SERVICES OF DEPARTMENT OF DEFENSE [redacted] C 5840 [illegible] ERS, AND PACKING -- IS ESTIMATED TO HAVE [illegible] ON.

[illegible] 3 MAY, WE TRANSPORTED 508 TOW MISSILES AND HAWK [illegible] RE PARTS (INCLUDING A RADAR) TO KELLY AIR FORCE [illegible] D FOR [illegible] ENT. THESE WEAPONS HAD BEEN TRUCKED [illegible] ARSENAL TO KELLY AIR FORCE BASE VIA [redacted] WHERE THEY WERE PREPARED FOR TRANSIT. THIS SHIPMENT IS ESTIMATED TO COST $6.1 MILLION, INCLUDING THE COST OF THE WEAPONS, GROUND TRANSPORTATION, THE SERVICES OF DEPARTMENT OF DEFENSE [redacted] OFFICERS, AND [illegible] ING.

-- ON 6 NOVEMBER, WE PREPAR[illegible] TRANSPORTED THE FINAL SHIPMENT OF 500 TOW MISS[illegible] ND A SMALL AMOUNT OF MEDICAL SUPPLIES. AS WI[illegible] OF THE OTHER SHIPMENTS, THE WEAPONS WERE TRANSPOR[illegible] FROM REDSTONE TO KELLY AIR FORCE BASE VIA CIA'S [redacted] THE MEDICAL SUPPLIES WERE PURCHASED IN WASHINGTON AND [redacted] THEN PACKED FOR SHIPMENT FROM KELLY AIR FORCE BASE. THE ESTIMATED COST OF THIS SHIPMENT IS $1.9 MILLION. IN THIS INSTANCE, AND IN THIS INSTANCE ONLY, [illegible] ESTIMATED COST ALSO INCLUDES CHARGES FOR A [illegible] FORCE C-141 TO FLY THE SHIPMENT FROM KELLY [illegible] BASE TO [redacted] AND THE COSTS OF A PLANE [illegible] BY [illegible] PROPRIETARY, WHICH TOOK THE SHIPMENT FROM [redacted] TO ISRAEL.

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-- SPREAD ACROSS ALL OF THE SHIPMENTS ARE $402,000 IN OT[illegible] TO PREPARE THE TOW MISSILES AND HAWK [illegible]. ALL [illegible] $24,000 OF THESE ESTIMATED COSTS WERE INCURRED BECAUSE U.S. ARMY REGULATIONS REQUIRE THAT TOW MISSILES PRODUCED BEFORE A CERTAIN DATE MUST BE RETROFITTED BEFORE THEY CAN BE WITHDRAWN FROM STOCKS. THE [illegible] CHANGES WERE MADE AT AN ARMY DEPOT IN ANNISTON, ALABAMA.

CIA OBTAINED QUOTES FOR THE COSTS OF THE TOW MISSILES AND HAWK EQUIPMENT THROUGH THE DEPARTMENT OF DEFENSE [redacted] SYSTEM. WE THEN ADDED ESTIMATES [illegible] OTHER ASSOCIATED EXPENSES. TO DATE, WE HAVE ONLY [illegible] CIA'S COSTS FOR PREPARING AND TRANSPORTING THE EQUIPMENT AN[illegible]UIRING THE MEDICAL SUPPLIES (WHICH TOTAL AROUND $50[illegible] AND A SINGLE BILLING FROM DEPARTMENT OF DEFENSE FOR $5.6 MI[illegible]. ALL OTHER BILLING FROM DEPARTMENT OF DEFENSE IS STILL PENDING. IF OUR ESTIMATES ARE ACCURATE, SOME $350,000 OF THE IRANIAN FUNDS WILL REMAIN AFTER ALL BILLS ASSOCIATED WITH THE OPERATION ARE PAID. WE CLOSED [redacted] BANK ACCOUNT ASSOCIATED WITH THE IRANIAN OPERATION ON 25 NOVEMBER. AS OF THAT DATE, NO FUNDS ASSOCIATED W[illegible] IRANIAN OPERATION ARE HELD IN ANY CIA-CONTROLLED BAN[illegible]

[redacted]

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IN ADDITION TO THE ACTIVITIES I JUST DESCRIBE[illegible] CIA ALSO PROVIDED TO THE NSC INTELLIGENCE SUPPORT AND TRA[illegible]TION AND

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ANALYTICAL SUPPORT, INCLUDING A CIA ANNUITANT WHO WAS SECONDED TO THE NSC [illegible] OUR ANNUITANT AND ANOTHER OF OUR OFFICERS PARTICIP[illegible] IN ARR[illegible] MEETINGS BETWEEN THE UNITED STATES [illegible] THE INTERMEDIARIES, AND THE IRANIAN SIDE.

A T[illegible] OF $87,[illegible] IN APPROPRIATED CIA FUNDS WERE USED IN SUPPORT OF [illegible] ACTIVITY.

-- STAFF EXPENSES (CHIEFLY TRAVEL AND TDY COSTS) OF $13,193.

-- INDEPENDENT CONTRACTOR COSTS OF $23,085 (FOR TRAVEL AND TDY EXPENSES OF THE RET[illegible] ANNUITANT WHO WAS INVOLVED IN THE OPERATION).

-- OPERATIONAL SUPPORT COSTS [illegible] $11,015 FOR EXPENSES ASSOCIATED WITH MEETING[illegible] [illegible] OPE [redacted]

-- USE OF AN AIRCRAFT OWNED BY A CIA PROPRIETARY ($40,185) THAT CARRIED THE U.S. TEAM ON THE [redacted]-TO-ISRAEL LEG OF A TRIP TO IRAN.

SINCE ALL TRAVEL BY CIA OFFICIALS IS ROUTINELY CHARG[illegible] [illegible]CH ACCOUNTS, TO DO OTHERWISE IN THE CASE OF THE TRIPS [illegible] DURING THIS PROGRAM WOULD HAVE COMPROMISED THE SEC[illegible] OF [illegible] ACTIVITIES.

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FINALLY, LET ME REITERATE THAT NONE OF THE IRANIAN MONEY DEPOSITED IN THE CIA [redacted] ACCOUNTS WAS DIVERTED TO [redacted] [redacted] O[illegible] PURPOSE. IF ANY SUCH DIVERSIONS DID TAKE PLACE, THEY OCCURRED BEFORE THE IRANIAN MONEY REACHED US.

DURING ALMOST ALL OF THE PERIOD IN QUESTION TODAY, CONGRESS HAD PLACED SHARP RESTRAINTS ON CIA SUPPORT TO THE NICARAGUAN RESISTANCE. OUR PEOPLE HAVE BEEN INSTRUCTED TO GO OUT OF THEIR WAY TO AVOID CIRCUMSTANCES THAT COULD BE INTERPRETED AS PROVIDING UNAUTHORIZED ASSISTANCE.

AS SOON AS THE BOLAND AMENDMENT RESTRICTIONS WERE PUT INTO EFFECT IN 1984, INSTRUCTIONS WERE [illegible] TO OUR FIELD STATIONS. AND I QUOTE:

> "FIELD STATIONS ARE TO CEASE AND DESIST FROM ACTIONS WHICH CAN BE CONSTRUED TO BE PROVIDING ANY TYPE OF SUPPORT, EITHER DIRECTLY OR INDIRECTLY, WITH WHOM WE DEALT UNDER THE NICARAGUAN PROGRAM. ALL FURTHER CONTACT WITH THESE ENTITIES, UNTIL FURTHER NOTICE, ARE TO BE SOLELY, REPEAT SOLELY, FOR THE PURPOSE OF COLLECTING POSITIVE AND COUNTERINTELLIGENCE INFORMATION OF INTEREST TO THE UNITED STATES."

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THIS MESSAGE WAS PERIODICALLY AMPLIFIED AND R[illegible] [illegible] THE SPRING OF 1986, WHEN WE LEARNED OF A PRIVATE BENEFACTOR [illegible]

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SUPPLY ACTIVITY BEING CONDUCTED OUT [redacted] WE [illegible] THE FOLLOWING INSTRUCTIONS TO [redacted]

HEADQUARTERS WISHES TO REAFFIRM GUIDELINES THAT NO, REPEAT NO, [illegible] MATERIEL OR MONETARY SUPPORT CAN BE PROVIDED TO RESISTANCE ELEMENTS [redacted]

WE WERE WELL AWARE THAT THE NICARAGUAN RESISTANCE MUST HAVE BEEN RECEIVING FUNDS FROM A VARIETY OF SOURCES DURING THE PERIOD IN QUESTION, JUST AS ALL OF YOU WERE AWARE. BUT WE DID NOT KNOW ANYTHING ABOUT THE SOURCES [illegible] THE MECHANICS OF SUCH FUNDING.

LET ME CONCLUDE BY TELLING YOU THAT WE DID BEGIN TO LEARN A FEW MONTHS AGO ABOUT POSSIBLE IRREGULARITIES IN THE OPERATION AND WHAT WE DID ABOUT IT. FIRST, IT IS IMPORTANT TO UNDERSTAND THAT THE NSC'S OPERATION HAD ENTERED A CRITICAL AND SENSITIVE PHASE BY THIS FALL. TWO OF OUR HOSTAGES ALREADY HAD BEEN RELEASED -- BENJAMIN WEIR IN SEPTEMBER 1985 AND FATHER JENCO IN JULY OF THIS YEAR. IN SEPTEMBER, THE NSC WAS ABLE TO ESTABLISH A NEW AND DIRECT CHANNEL TO MAJLES SPEAKER RAFSANJANI. ONCE WE HAD DECIDED THE CHANNEL WAS RELIABLE, THE NSC PROCEEDED [illegible] HIGHLY SENSITIVE NEGOTIATIONS BOTH TO EXPAND OUR CONTACTS INSIDE IRAN AND TO TRY TO SECURE THE RELEASE OF AMERICAN HOSTAGES IN LEBANON.

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THE NSC'S FIRST MEETING WITH IRANIAN OFFICIALS INVOLVED IN THE NEW CHANNEL OCCURRED IN LATE SEPTEMBER. THE IRANIANS WERE INITIALLY [illegible] WHETHER THE U.S. WAS SERIOUS AND COULD BE TRUSTED. BY THE TIME THE TALKS WERE CONCLUDED, THE IRANIANS HAD PROPOSED AND NAMED THE FOUR IRANIAN MEMBERS OF A JOINT COMMITTEE [illegible] EXPLORE HOW TO OPEN RELATIONS BETWEEN THE TWO COUNTRIES. [illegible] AMERICAN HOSTAGES IN LEBANON WERE DISCUSSED AND THE SENIOR IRANIAN OFFICIAL ATTENDING THIS MEETING AGREED TO TRAVEL TO LEBANON TO ASSESS WHETHER ADDITIONAL AMERICAN HOSTAGES COULD BE FREED.

Partially [illegible] 31 Aug 87 [illegible] Council

THE FIRST NEWSPAPER STORY ABOUT THE IRANIAN-U.S. MEETINGS AND TALKS APPEARED IN A LEBANESE NEWSPAPER ON 3 NOVEMBER. ON 4 NOVEMBER RAFSANJANI MADE A PUBLIC STATEMENT ABOUT McFARLANE'S VISIT TO TEHRAN. THAT VISIT WAS [illegible] OF AN INTENSIVE EFFORT TAKING PLACE DURING THE LAST DAYS [illegible] OCTOBER AND THE EARLY DAYS OF NOVEMBER TO GET TWO OR THREE [illegible] AMERICAN HOSTAGES RELEASED. DAVID JACOBSEN, IN FACT, WAS RELEASED ON 2 NOVEMBER AS A RESULT OF THIS EFFORT [redacted] THE IRANIANS WERE MAKING STRENUOUS EFFORTS TO GET THE HIZBALLAH CAPTORS IN LEBANON TO RELEASE ADDITIONAL HOSTAGES.

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IN THE MIDDLE OF ALL THIS, I RECEIVED A TELEPHONE CALL FROM ROY FURMARK ON 7 OCTOBER 1986. I HAD DONE SOME [illegible] WORK FOR HIS COMPANY SOMETIME IN THE LATE 1970s AND I HAD [illegible] SEEN HIM

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SINCE THEN. FURMARK SAID ON THE PHONE THAT HE HAD SOMETHING IMPORTANT [redacted] ED TO INFORM ME ABOUT. I HAD HIM COME DOWN TO [redacted] NGTON [redacted] TLY. IT QUICKLY EMERGED THAT HE KNEW MORE A [redacted] THE NSC PROJECT WITH IRAN THAN I DID. HE HAD BEEN INVOLVE [redacted] IT SINCE [redacted] E 1985 OR EARLY 1986. HIS ROLE WAS THAT OF [redacted] SOR [redacted] MEMBER OF THE STAFF OF ADNAN KHASHOGGI. HE HAD WORKE [redacted] GORBANIFAR ALMOST FROM THE INCEPTION OF THAT GENTLEMAN'S EFFORT TO DEVELOP AN AMERICAN-IRANIAN RELATIONSHIP. THE OCCASION OF HIS VISIT TO ME WAS HIS CONCERN THAT HE AND KHASHOGGI HAD BROUGHT TOGETHER CANADIAN INVESTORS TO PUT UP MILLIONS OF DOLLARS TO FINANCE TH [redacted] S SALES BY THE U.S. AND IRAN. HE TOLD ME THAT THE CANAD [redacted] VESTORS WERE STILL OWED SOMETHING LIKE $10 MILLION AND WE [redacted] OUSED BY THEIR INABILITY TO COLLECT THE MONEY THEY HAD AD [redacted]. HE SAID THEY INTENDED TO BRING FORMAL LEGAL ACTION TO R [redacted] R THEIR MONEY. HE WAS CONCERNED THAT THIS WOULD DESTROY [redacted] PECTS OF GETTING ADDITIONAL HOSTAGES OUT. THIS WAS ALL ENTIRELY NEW TO ME. I THANKED HIM FOR THE INFORMATION AND SAID THAT I WOULD CHECK INTO THE SITUATION.

THAT SAME AFTERNOON, I CALLED ADMIRAL POINDEXTER [redacted] REPORTED THIS ALARMING INFORMATION TO HIM. HE SEEM [redacted] ED AND CLEARLY CONCERNED. IT WAS, IN FACT, OBVIOUS TO [redacted] THAT THIS INFORMATION REPRESENTED A MAJOR RISK TO [redacted] OPERATIONAL SECURITY OF THE NSC-IRANIAN INITIATIVE [redacted] ALTHOUGH NEITHER OF US AT THE TIME WAS SURE ABOUT THE ACCURACY OF THE

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INFORMATION. I ADVISED HIM TO PREPARE A COMPREHENSIVE STATEMENT FULLY COVERING ALL ASPECTS OF THE IRANIAN INITIATIVE AND TO CONSULT [illegible] HOUSE LAWYERS ON HOW TO HANDLE IT.

[illegible] MED DEPUTY DIRECTOR BOB GATES AND CHARLES ALLEN, CIA'S [illegible] AL INTELLIGENCE OFFICER FOR COUNTERTERRORISM, WHO HAD PROV[illegible] INTELLIGENCE SUPPORT TO THE NSC'S IRAN INITIATIVE FROM THE BEGINNING. I ASKED ALLEN TO PREPARE A COMPREHENSIVE MEMORANDUM LAYING OUT OUR CONCERNS AT THAT POINT ABOUT THE IRAN PROGRAM AND ARRANGED FOR HIM TO GO UP TO NEW YORK TO INQUIRE FURTHER INTO THE LARGE AMOUNT OF INFORMATION WHICH FURMARK HAD ACCUMULATED. THE NEXT DAY I WRO[illegible] MEMORANDUM TO THE DIRECTOR OF OUR NEAR EAST DIVISION REPORT[illegible] IEFLY THE INFORMATION RECEIVED FROM FURMARK.

ON 9 OCTOBER, THE DDCI AND [illegible] WITH LIEUTENANT COLONEL NORTH WHO HAD COME OUT TO BRIEF [illegible] RECENT PROJECTS. WE POINTEDLY ASKED COLONEL NORTH IF HE HAD ANY KNOWLEDGE OF CIA INVOLVEMENT IN THIRD PARTY SUPPORT EFFORTS TO THE CONTRAS. COLONEL NORTH REPLIED THAT, BASED ON HIS KNOWLEDGE OF THE PRIVATE FINANCIAL EFFORTS UNDERWAY, CIA WAS COMPLETELY CLEAN ON THE QUESTION OF ANY CONTACT WITH THOSE INVOLVED.

ON 15 OCTOBER, THE DDCI AND I MET WITH ADMIRAL [illegible] NDE IN HIS OFFICE. WE GAVE HIM THE MEMORANDUM I HAD [illegible] ALLEN TO PREPARE AND SAT WITH HIM WHILE HE READ [illegible] WE

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REITERATED OUR CONCERN THAT THE NSC PROJECT WAS ABOUT TO SPIN OUT OF CONTROL. I SUGGESTED AGAIN THAT HE CONSULT WHITE HOUSE COUNSEL.

ADM[illegible] POINDEXTER EXPRESSED APPRECIATION AND AGREED TO CONSIDER [illegible] TO DO. HE SAID THAT HE HAD CONSULTED HIS OWN NSC COUNSEL, [illegible], ABOUT THE LEGAL ASPECTS OF THE MATTER. HE INDICATED THAT HE WANTED TO TAKE A LITTLE MORE TIME BEFORE FOLLOWING OUR RECOMMENDATIONS IN ORDER TO SEE WHETHER ONGOING DISCUSSIONS WITH THE IRANIANS COULD BE MAINTAINED AND PARTICULARLY WHETHER IT MIGHT BE POSSIBLE TO GET ONE OR TWO ADDITIONAL HOSTAGES OUT.

MEANWHILE, IN SUBSEQUENT CONVE[illegible]ONS WITH FURMARK, ON 16 AND 22 OCTOBER, ALLEN HAD GOTTEN F[illegible]R DETAILS ON THE UNHAPPINESS OF THE INVESTORS AND [illegible]LD THAT THE IRANIAN MIDDLEMAN GORBANIFAR BELIEVED THA[illegible] $15 MILLION RAISED BY THE INVESTORS HAD GONE TO THE CONTRAS. THIS WAS THE FIRST INDICATION I RECEIVED THAT IRANIAN PAYMENTS WERE BEING DIVERTED TO THE CONTRAS. THIS LATER INFORMATION FROM FURMACK WAS PASSED TO COLONEL NORTH BY ALLEN.

IN TRYING TO DECIDE HOW MUCH WEIGHT TO PLACE ON [illegible] INFORMATION THAT BEGAN TO SURFACE IN OCTOBER, AND [illegible] TO DO ABOUT IT, WE HAD TO BALANCE A NUMBER OF FAC[illegible] OF ALL, THE INFORMATION, WHILE DEEPLY DISTURBING, [illegible] EXTREME[illegible] DIFFICULT FOR US TO INTERPRET AND WEIGH -- ESPECIALLY SINCE WE

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HAD NO KNOWLEDGE OF THE FINANCIAL MECHANICS OF THE NSC OPERATION[illegible]ILED NATURE OF THE INFORMATION FROM MR. FURMARK[illegible]NSID[illegible]E IMPACT. BUT THE INFORMATION HE PASSED TO US[illegible]VERSION OF FUNDS TO THE CONTRAS WAS STILL LITTLE MORE T[illegible]PECULATION HE HAD HEARD FROM THE IRANIAN MIDDLEMAN. WE DECI[illegible]HE MOST [illegible]PROPRIATE THING TO DO WAS PASS THE INFORMATIO[illegible]WHICH WAS BETTER ABLE TO EVALUATE IT.

IN FACT, WE WERE TAKEN BY SURPRISE BY THE ATTORNEY GENERAL'S STATEMENT OF 25 NOVEMBER TO THE EFFECT THAT HE HAD UNCOVERED GOOD EVIDENCE THAT IRANIAN MONEY HAD BEEN DIVERTED. HIS STATEMENT MUST BE BASED ON INF[illegible]TION THAT IS STILL UNAVAILABLE TO US.

IN CONCLUSION, I BELIEVE THA[illegible]ID ALL THAT COULD RESPONSIBLY BE DONE GIVEN THE NA[illegible]F THE INFORMATION WITH WHICH WE WERE DEALING AND THE EXTREMELY CRITICAL PASS IN WHICH WE FOUND OURSELVES IN OUR EFFORTS TO FREE THE HOSTAGES.

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[illegible] Ex. 1
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14 Sep 85 - Mtg w/Robert McFarlane #17

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23 September 1985

MEMORANDUM FOR THE RECORD

SUBJECT: DCI/DDCI Meeting with Assistant to the President for National Security Affairs, 19 September 1985

1. Admiral Poindexter and Ken DeGraffenreid were also in attendance. [redacted]

[redacted]

3. McFarlane noted to the DCI [redacted] extremely well done, and he [redacted] McFarlane said he had [redacted] Weir had been released because [redacted] provide weapons to Iran or at least [redacted] Israel or other countries to Iran. [redacted] called David Kimche, Director [redacted] Affairs, on the open line to assure [redacted] that that was not the case and that no deal had been struck for the release of Weir.

[redacted]

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by B. Reger, National Security Council

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23 September 1985

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MEMORANDUM FOR THE RECORD

SUBJECT: DCI/DDCI Meeting with Assistant to the President for National Security Affairs, 19 September 1985

1. Admiral Poindexter and Ken DeGraffenreid were also in attendance.

[redacted]

3. McFarlane noted to the DCI [redacted] extremely well done, and he thought [redacted] McFarlane said he had seen an FBIS [redacted] Weir had been released because the [redacted] provide weapons to Iran or at least [redacted] Israel or other countries to Iran. [redacted] called David Kimche, Director Genera[redacted] Affairs, on the open line to assure [redacted] that that was not the case and that no deal had been struck for the release of Weir.

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Central Intelligence
Washington, D.C. 20505

86-4068M-

26 November 1985

I 0400

MEMORANDUM FOR: Vice Admiral John M. Poindexter, USN
Deputy Assistant to the President
for National Security Affairs

SUBJECT: Presidential Finding on Middle East

Pursuant to our conversation this should go to the President for his signature and should not be passed around in any hands below our level.

WJCasey
William J. Casey

Attachment:
As stated

Partially [illegible] 31 Aug 87 [illegible]

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[redacted]

Finding Pursuant to Section 662 of the Foreign Assistance Act of 1961, As Amended, Concerning Operations Undertaken by the Central Intelligence Agency in Foreign Countries, Other Than Those Intended Solely for the Purpose of Intelligence Collection

I have been briefed on the efforts being made by private parties to obtain the release of Americans held hostage in the Middle East, and hereby find that the following operations in foreign countries (including all support necessary to such operations) are important to the national security of the United States. Because of the extreme sensitivity of these operations, in the exercise of the President's constitutional authorities, I direct the Director of Central Intelligence not to brief the Congress of the United States, as provided for in Section 501 of the National Security Act of 1947, as amended, until such time as I may direct otherwise.

SCOPE	DESCRIPTION
Hostage Rescue - Middle East	The provision of assistance by the Central Intelligence Agency to private parties in their attempt to obtain the release of Americans held hostage in the Middle East. Such assistance is to include the provision of transportation, communications, and other necessary support. As part of these efforts certain foreign material and munitions may be provided to the Government of Iran which is taking steps to facilitate the release of the American hostages. All prior actions taken by U.S. Government officials in furtherance of this effort are hereby ratified.

The White House
Washington, D.C.

Date:

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[redacted]

[illegible] 32,369

UNCLASSIFIED by Hewson

86-4068K

ITEM NO. 11. TITLE John McMahon's note pad reference to December 5, 1985, approval of Finding related to NSC project.

DATE	DESCRIPTOR - TO/FROM
28 Nov 86	MFR [redacted]

I 0395

McMahon Ex #10
6/1/87 mar

3987

Partially [redacted] 3/Aug 87
urity Council

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86-4068R

28 November 1986

I 0396

MEMORANDUM FOR THE RECORD

The following is a reconstruction of cryptic notes that I have from a 5 December 1985 meeting in DDCI John N. McMahon's Office with then DDI, Bob Gates; D/NESA [redacted] then ADDO, Ed Juchniewicz; then C/NE Division [redacted] [redacted] and I believe then DC/Europe, [redacted]

° The DDCI requested facts on the following by the next day:

--The political scene in Iran, including any possible dissension, unrest, etc;

--Biography of [redacted]

--Verification of [redacted]

--Was it true that Iran was trying to get U.S. Hawk missiles to knock out Soviet Bear aircraft over Iran or the Iran/Iraq border.

--The status of the Iran/Iraq war, including a prognosis of what each might do and a table reflecting an order of battle for each side.

° DDCI noted that he would be attending a meeting at 10:00 AM on Saturday, 7 December, with the President regarding the expansion of the informal link between the Iranians and the Israelis;

--He noted that a new "private interlocutor" was working with Israeli Foreign Ministry Official David Kimche;

--Noted that Iran wanted to get closer to the United States and wondered (DDCI) whether this could be a ruse to get Hawk missiles.

° DDCI noted that Saturday's meeting would take stock of the two-track program now underway: one to free the hostages and the other to expand our ties with Iran. Meetings were planned in Geneva between the United States and Iran in the short term.

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I 0397

○ [redacted] reviewed what had been done so far:

--One plane load had been sent to the Iranians on 24 November: we did not know if that included Hawk missiles;

--Oliver North was to get to London that weekend for discussions: the following week he was arranging up to five plane loads, including 747s;

--These would probably overfly [redacted] going from Israel [redacted] to Iran;

--President signed the finding; (I am not certain who at the meeting actually said this) [redacted]

--Oliver North was lining up the planes: we don't know how.

○ In response to a question about a clearance for the landing rights, someone noted that [redacted] were standing by;

○ A question was raised regarding a plane going to Iran from Jerusalem and possibly stopping in Texas; [redacted] No further information was available.

○ A review of recent Iranian reporting noted the following:

--No real opposition that we could capitalize on;

--Khomeini seemed to be in better health;

--The economic situation was deteriorating;

--The possibility of a new major offensive could stimulate opposition within Iran;

--Key players were Kimche and the private U.S. citizen--interlocutor.

--Weir released for one plane load; got nothing for second load. [redacted]

--DDCI requested that the source of this information be checked.

○ DDCI also requested any intelligence coverage [redacted]

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- [redacted]
- CIA had so far spent [redacted] for a total [redacted] on the hostage issue. DDCI emphasized money spent to continue the intelligence flow regarding the location of the hostages was permissible. 0398

[redacted]

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6/1/87 mas

10 December 1985

Partially Declassified/Released on 31 Aug 88 [illegible] 12958 by B. R[illegible]

MEMORANDUM FOR: Deputy Director of Central Intelligence

FROM: Director of Central Intelligence

1. At the 1030 meeting today, Bud reported on his discussions over the weekend with Gorbanifehr in London. He did not have a good impression of Gorbanifehr and recommended that we not pursue the proposed relationship with him. [redacted]

2. Everybody supported this in our roundtable discussion. Other options which Bud had suggested were to let the Israelis go ahead doing what they would bably do anyway, and hope that we get some benefi [redacted] The President argued mildly for letting the operation go ahead without mmitments from us except that we should ultimately fill up the Israeli p ne in any event, or the Congress will do it for us. He was afraid that te ating the ongoing discussions, as Bud had speculated they might, could lea o early action against the hostages. The trend of the succession of this was that it was a little disingenuous and would still bear the onus of having traded with the captors and provide an incentive for them to do some more kidnapping, which was the main burden of the argument against going forward on the program. The President felt that any ongoing contact would be justified and any charges that might be made later could be met and justified as an effort to influence future events in Iran. I did point out that there was historical precedent for this and that was always the rationale the Israelis had given us for their providing arms to Iran.

3. [redacted] we would maintain contact with any of the Iranians who turned up in this affair who are willing to do business on the basis of exchanging information and looking for ways to collaborate with respect to Iran's future.

4. As the meeting broke up, I had the idea that the President had not entirely given up on encouraging the Israelis to carry on with the Iranians. I suspect he would be willing to run the risk and take the heat in the future if this will lead to springing the hostages. It appears that Bud has the action.

William J. Casey

3985

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CL BY [redacted]
RVW OADR

Executive Registry 84,460

CJIN 1093

[redacted]

D/DCI
OUTGOING

[redacted]

PAGE 001
TOT: 25[redacted]JAN 86 DIRECTOR 705774

[redacted]

31 [illegible] 0566

STAFF 25[redacted]DIRECTOR 705774
TO: IMMEDIATE[redacted]

[redacted]

McMahon Ex #12
6/11/87 mas

NIACT[redacted]

[redacted]

SUBJECT: PRESENT STATUS IN SAGA REGARDING THE MOVEMENT OF TOW MISSILES

PLEASE PASS TO DCI FROM DDCI EYES ONLY AT START OF HIS DAY AND PLEASE CONFIRM DELIVERY.

1. A NEW DIMENSION HAS BEEN ADDED TO THIS PROGRAM AS A RESULT MEETING HELD IN LONDON BETWEEN NORTH AND GHORBANIFAR. WE HAVE N ASKED TO PROVIDE A MAP DEPICTING THE ORDER OF BATTLE ON THE AN/IRAQ BORDER SHOWING UNITS, TROOPS, TANKS, ELECTRONIC INSTALLATIONS, AND WHAT HAVE YOU. THE GAME PLAN IS FOR A SEGMENT OF THE MAP DEPICTING A PART OF THE FRONT TO BE PASSED TO SHOW OUR BONA FIDES AND THAT WILL START IN TRAIN A SERIES OF EVENTS. WHEN THE MOVEMENT OF THE MISSILES TAKES PLACE, THE REMAINDER OF THE MAP WILL BE PASSED AND THAT WILL PROMPT ALL THE RECIPROCAL ACTION ON THE PART OF THE IRANIANS. TIMING IS FOR THE FIRST SEGMENT OF THE MAP TO BE DELIVERED LEAVING HERE TOMORROW, SATURDAY, 25 JANUARY. THEN ON THE 9TH OF FEBRUARY, A THOUSAND TOWS WITH THE REMAINDER OF THE MAP AS THE FIRST TRANCHE OF A 4,000 COMMITMENT.

2. WE ARE TO GET THE TOWS FROM THE US ARMY AND ARRANGE TRANSPORT OVERSEAS.

3. EVERYONE HERE AT HEADQUARTERS ADVISES AGAINST THIS OPERATION NOT ONLY BECAUSE WE FEEL THE PRINCIPAL INVOLVED IS A LIAR AND HAS A RECORD OF DECEIT, BUT, SECONDLY, WE WOULD BE AIDING AND ABETTING THE WRONG PEOPLE. I MET WITH POINDEXTER THIS AFTERNOON TO APPEAL HIS DIRECTION THAT WE PROVIDE THIS INTELLIGENCE, POINTING OUT NOT ONLY THE FRAGILITY IN THE ABILITY OF THE PRINCIPAL TO DELIVER, BUT ALSO THE FACT THAT WE WERE TILTING IN A DIRECTION WHICH COULD CAUSE THE IRANIANS TO HAVE A SUCCESSFUL OFFENSE AGAINST THE IRAQIS WITH CATACLYSMIC RESULTS. I NOTED THAT PROVIDING FENSIVE MISSILES WAS ONE THING BUT WHEN WE PROVIDE INTELLIGENCE THE ORDER OF BATTLE, WE ARE GIVING THE IRANIANS THE WHEREWITHAL

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~~TOP SECRET~~ COPY # 001

~~UNCLASSIFIED~~

[redacted] PAGE 002
TOT: 25[redacted]JAN 86 DIRECTOR 705774

0567

FOR OFFENSIVE ACTION.

4. POINDEXTER DID NOT DISPUTE OUR RATIONALE OR OUR ANALYSIS, BUT INSISTED THAT IT WAS AN OPPORTUNITY THAT SHOULD BE EXPLORED. HE FELT THAT BY DOING IT IN STEPS THE MOST WE COULD LOSE IF IT DID NOT REACH FULFILLMENT WOULD BE 1,000 TOWS AND A MAP OF ORDER OF BATTLE WHICH IS PERISHABLE ANYWAY.

5. WE ARE NOW PROCEEDING TO PREPARE THAT MAP AND DELIVER IT TO NORTH AT 1100 SATURDAY MORNING WASHINGTON TIME.

6. I HAVE READ THE SIGNED FINDING DATED 17 JANUARY 1986 WHICH GIVES US THE AUTHORITY TO DO WHAT THE NSC IS NOW ASKING. HENCE, IN SPITE OF OUR COUNSEL TO THE CONTRARY, WE ARE PROCEEDING TO FOLLOW OUT ORDERS AS SO AUTHORIZED IN THE FINDING.

7. NO FILE. DECL OADR DRV HUM-4-82. ALL TOP SECRET.)
ORIG: DDCI (MCMAHON 1:55). [redacted]
END OF MESSAGE

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~~TOP SECRET~~

~~TOP SECRET~~

UNCLASSIFIED

17 JAN 86 1/17/86

#49

THE WHITE HOUSE

WASHINGTON

N 10046

January 17, 1986

[redacted]

~~TOP SECRET~~

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN M. POINDEXTER JMP

SUBJECT: Covert Action Finding Regarding Iran

Prime Minister Peres of Israel secretly dispatched his special advisor on terrorism with instructions to propose a plan by which Israel, with limited assistance from the U.S., can create conditions to help bring about a more moderate government in Iran. The Israelis are very concerned that Iran's deteriorating position in the war with Iraq, the potential for further radicalization in Iran, and the possibility of enhanced Soviet influence in the Gulf all pose significant threats to the security of Israel. They believe it is essential that they act to at least preserve a balance of power in the region.

The Israeli plan is premised on the assumption that moderate elements in Iran can come to power if these factions demonstrate their credibility in defending Iran against Iraq and in deterring Soviet intervention. To achieve the strategic goal of a more moderate Iranian government, the Israelis are prepared to unilaterally commence selling military materiel to Western-oriented Iranian factions. It is their belief that by so doing they can achieve a heretofore unobtainable penetration of the Iranian governing hierarchy. The Israelis are convinced that the Iranians are so desperate for military materiel, expertise and intelligence that the provision of these resources will result in favorable long-term changes in personnel and attitudes within the Iranian government. Further, once the exchange relationship has commenced, a dependency would be established on those who are providing the requisite resources, thus allowing the provider(s) to coercively influence near-term events. Such an outcome is consistent with our policy objectives and would present significant advantages for U.S. national interests. As described by the Prime Minister's emissary, the only requirement the Israelis have is an assurance that they will be allowed to purchase U.S. replenishments for the stocks that they sell to Iran. We have researched the legal problems of Israel's selling U.S. manufactured arms to Iran. Because of the requirement in U.S. law for recipients of U.S. arms to notify the U.S. government of transfers to third countries, I do not recommend that you agree with the specific details of the Israeli plan. However, there is another possibility. Some time ago Attorney

RECEIVED

[redacted]

NOV 29 1986

Copy is Receipt

T735

~~TOP SECRET~~
Declassify on: OADR

Partially Declassified / Released on 4 May 1987
under provisions of E.O. 12356
by B. Reger, National Security Council

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TOP SECRET

EXHIBIT 1

UNCLASSIFIED ~~TOP SECRET~~

N 10047

~~TOP SECRET~~

[redacted]

General William French Smith determined that under an appropriate finding you could authorize the CIA to sell arms to countries outside of the provisions of the laws and reporting requirements for foreign military sales. The objectives of the Israeli plan could be met if the CIA, using an authorized agent as necessary, purchased arms from the Department of Defense under the Economy Act and then transferred them to Iran directly after receiving appropriate payment from Iran.

The Covert Action Finding attached at Tab A provides the latitude for the transactions indicated above to proceed. The Iranians have indicated an immediate requirement for 4,000 basic TOW weapons for use in the launchers they already hold.

The Israeli's are also sensitive to a strong U.S. desire to free our Beirut hostages and have insisted that the Iranians demonstrate both influence and good intent by an early release of the five Americans. Both sides have agreed that the hostages will be immediately released upon commencement of this action. Prime Minister Peres had his emissary pointedly note that they well understand our position on not making concessions to terrorists. They also point out, however, that terrorist groups, movements, and organizations are significantly easier to influence through governments than they are by direct approach. In that we have been unable to exercise any suasion over Hizballah during the course of nearly two years of kidnappings, this approach through the government of Iran may well be our only way to achieve the release of the Americans held in Beirut. It must again be noted that since this dialogue with the Iranians began in September, Reverend Weir has been released and there have been no Shia terrorist attacks against American or Israeli persons, property, or interests.

Therefore it is proposed that Israel make the necessary arrangements for the sale of 4000 TOW weapons to Iran. Sufficient funds to cover the sale would be transferred to an agent of the CIA. The CIA would then purchase the weapons from the Department of Defense and deliver the weapons to Iran through the agent. If all of the hostages are not released after the first shipment of 1000 weapons, further transfers would cease.

On the other hand, since hostage release is in some respects a byproduct of a larger effort to develop ties to potentially moderate forces in Iran, you may wish to redirect such transfers to other groups within the government at a later time.

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[redacted]

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3

[redacted]

The Israelis have asked for our urgent response to this proposal so that they can plan accordingly. They note that conditions inside both Iran and Lebanon are highly volatile. The Israelis are cognizant that this entire operation will be terminated if the Iranians abandon their goal of moderating their government or allow further acts of terrorism. You have discussed the general outlines of the Israeli plan with Secretaries Shultz and Weinberger, Attorney General Meese and Director Casey. The Secretaries do not recommend you proceed with this plan. Attorney General Meese and Director Casey believe the short-term and long-term objectives of the plan warrant the policy risks involved and recommend you approve the attached Finding. Because of the extreme sensitivity of this project, it is recommended that you exercise your statutory prerogative to withhold notification of the Finding to the Congressional oversight committees until such time that you deem it to be appropriate.

Recommendation

OK NO

RR per JP ___ That you sign the attached Finding.

Prepared by:
Oliver L. North

Attachment
Tab A - Covert Action Finding

1100 17 Jan 86

President was briefed verbally from this paper. VP, Don Regan and Don Fortier were present.

JP

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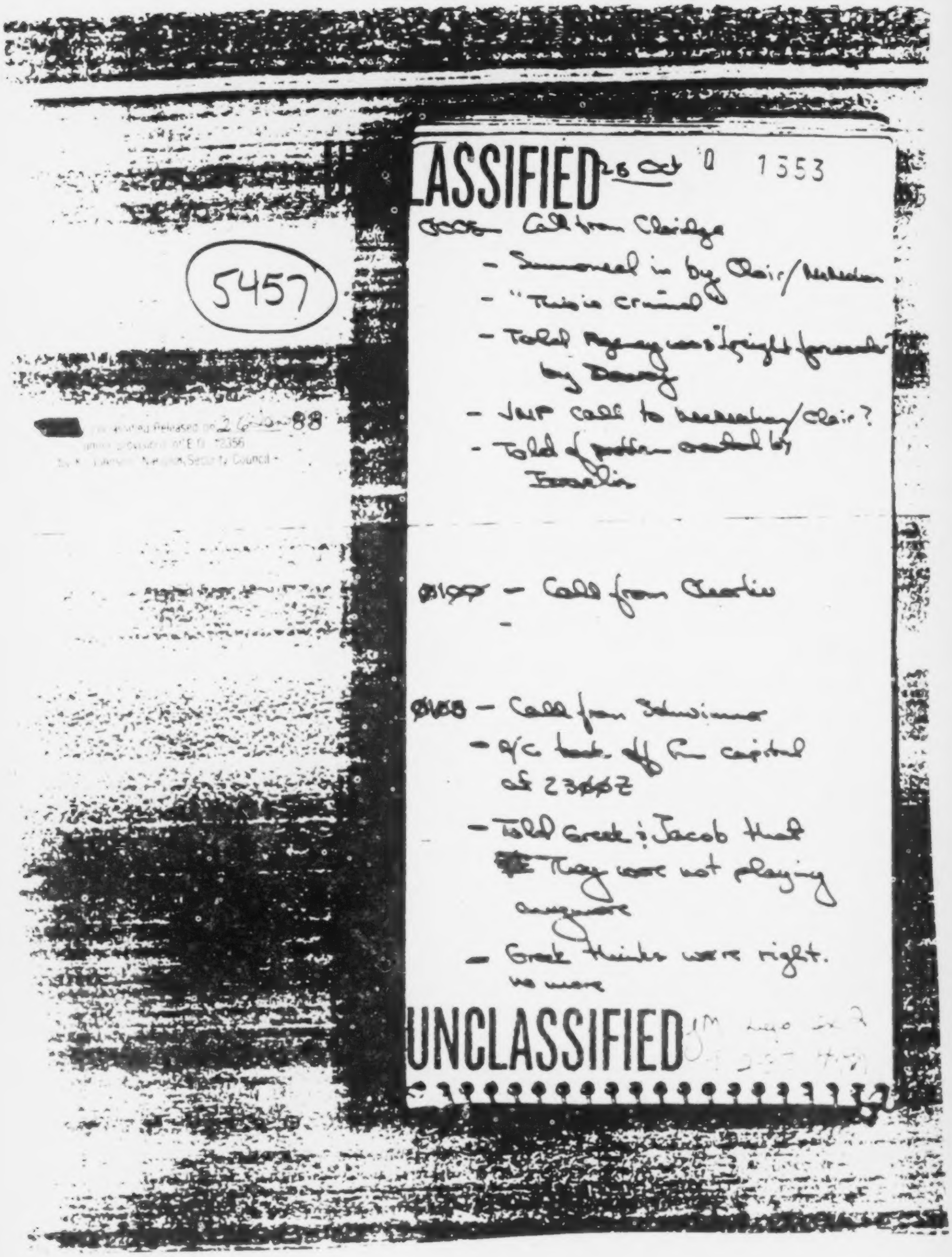

UNCLASSIFIED 25 Oct 0 1353

0005 – Call from Clarridge
- Summoned in by Clair/McMahon
- "This is criminal"
- Told Agency was "brought forward" by Dewey
- JMP call to McMahon/Clair?
- Told of problem created by Israelis

0100 – Call from Charlie
-

0108 – Call from Schwimmer
- A/C took off fm capital at 2300Z
- Told Greek & Jacob that they were not playing anymore
- Greek thinks we're right. we were

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5457

[redacted] Declassified/Released on 2 June 88
under provisions of E.O. 12356
by K. [illegible], National Security Council

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[redacted]

TRANSCRIPT OF PROCEEDINGS

CONFIDENTIAL HSIC 26 /87

UNITED STATES SENATE

SELECT COMMITTEE ON
SECRET MILITARY ASSISTANCE TO
IRAN AND THE NICARAGUAN OPPOSITION

DEPOSITION OF STEPHEN M. McMAHON

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CONFIDENTIAL

Partially Declassified/Released on 12-21-87
under provisions of E.O. 12356
by N. Menan, National Security Council

Washington, D. C.

Monday, April 13, 1987

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UNITED STATES SENATE

SELECT COMMITTEE ON
SECRET MILITARY ASSISTANCE TO
IRAN AND THE NICARAGUAN OPPOSITION

DEPOSITION OF STEPHEN M. McMAHON

Washington, D. C.
Monday, April 13, 1987

Deposition of STEPHEN M. McMAHON, called for examination pursuant to notice of deposition, at the Hart Senate Office Building, Suite 901, at 1:45 p.m. before JOEL BREITNER, a Notary Public within and for the District of Columbia, when were present:

JAMES E. KAPLAN, ESQ.
W. THOMAS McGOUGH, JR., ESQ.
United States Senate
Select Committee on Secret
Military Assistance to
Iran and the Nicaraguan
Opposition
Suite 901
Hart Senate Office Building
Washington, D. C.

-- continued --

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APPEARANCES (Continued):

THOMAS FRYMAN, ESQ.
KENNETH R. BUCK, ESQ.
Assistant Minority Counsel
United States House of Representatives
Select Committee to Investigate Covert Arms Transactions with Iran
H-419, The Capitol
Washington, D. C. 20515

ELAINE R. LUBIN, ESQ.
Swidler & Berlin
1000 Thoams Jefferson Street, N.W.
Washington, D. C. 20007
On behalf of the Deponent.

ALSO PRESENT:

THOMAS CIEHANSKI
General Accounting Office
Special Agent, Investigations

LOUIS ZAWARDI

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PROCEEDINGS

Whereupon,

STEPHEN M. MC MAHON

was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. FRYMAN:

Q Would you state your name for the record, please?

A Stephen M. McMahon.

Q Where are you employed, Mr. McMahon?

A I'm self-employed and do much of my work for the Channell organizations.

Q Have you always been self-employed?

A No. I went out on my own in about the summer of 1984.

Q And what did you do before that?

A I have been in the field of accounting; approximately 9 to 10 years.

Q Were you employed by a firm before the summer of '84?

A Yes.

Q Which firm?

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A I have worked for Price Waterhouse, Alexander & Alexander, and United Mine Workers.

Q Which PW office were you employed at?

A Baltimore.

Q When were you employed there?

A That was when I first came out of school, and that would have been 1978 through 1980, '81, somewhere around there.

Q Now, since 1984 you have been self-employed?

A Yes, sir.

Q How much of your professional time has been devoted to work for Mr. Channell or organizations affiliated with Mr. Channell since the summer of 1984?

A It was variable. I would say, around the -- late in 1985, early '86 is when the majority of my time has been devoted to his organizations.

Q Well, let's focus, then, on '85, the period January through July, 1985.

A Okay.

Q Approximately what percent of your time was devoted to Mr. Channell and his organizations?

A Oh, I would say somewhere in the nature of 60 to

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70 percent.

Q And from August through December 1985?

A It steadily grew until, I would say, about 90, 95 percent.

Q What about in 1986?

A About 115 percent. (Laughing.)

Q And has that continued in 1987?

A Yes.

Q You have basically been full time with Mr. Channell?

A Yes. I would -- I concentrate most of my time for him. I have a few small business clients that I continue to do work for, but they don't take up a good deal of my time.

Q How are you compensated by Mr. Channell?

A I get paid a flat fee each month.

Q Is that fee negotiated?

A Well, we started out on an hourly basis, and as more and more hours were getting put in on the organizations, I didn't think it was quite -- it seemed too expensive to be paying me that way, and we changed it over to a flat fee. It has stayed on that basis, and I think it has been raised once -- twice -- maybe three times.

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Q What is the present monthly fee that you receive?

A Right now it's $6000 per month; and that's divided across the various organizations. We try to break it down as to how much time I spend on each one.

Q When was that monthly fee raised to $6000?

A Well, I was being paid $4500 and then in March, I think it was, of '86, when we started doing the work with Western Goals, it was agreed that I would get paid $1500 per month for the Western Goals efforts and the additional work.

I didn't actually get paid that Western Goals thing until, I think maybe August, I got my first payment. And then I got a lump for all the back months in around, oh, October and November. Somewhere around there. And it has been at that steady $6000 since then.

Q And for what period of time were you paid $4500 a month?

A I think, I'm not positive on this, but I think it was around April or May of '85 up until the Western Goals change in March of '86.

Q Now, where do you maintain an office?

A In my home.

Q Where is that?

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privacy

A The address?

Q Yes.

A [redacted]

Q Have you lived at that same address since the summer of 1984?

A Yes, I have.

Q Do you also maintain a working area in the offices of Mr. Channell's organizations?

A I have a desk there, which has only been since we moved over to the new offices.

Q Where are the new offices located?

A 1331 Pennsylvania Avenue.

Q When did that move occur?

A August 4th of '86.

Q So, since that time, you have had a desk at the Channell office?

A Yes. There's a desk there that I can work at. Sure.

Q And did you have a desk at the office before August of 1986?

A Not as such.

Q In the old office?

A Not as such.

Q How much of your time since August of 1986 would you estimate that you spend working in the Channell offices?

A In their environment?

Q Yes. In their offices.

A Oh, well, that depends on the different timing, but I would say overall it's probably less than half of my time. I do most of my work at home for them.

Q But on overall approximation, it would be 50 percent of your time in the Channell offices?

A I would say maybe a little bit less than that.

Q 40 to 50 percent?

A Yes, that would be --

Q Was the percentage of time that you spent in the offices of the organizations essentially the same before the move to 1331 Pennsylvania Avenue?

A No. There was no place to work at the other offices.

Q So approximately how much time did you spend in the offices there?

A Very little.

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Q 25 percent?

A Less.

Q Less than 25 percent?

A Yes. Most of the time I would need to go and pick up the books and the records and the documents and take them back home and work on them at home, because there was just no place to sit and actually have a table to even write on. We were rather cramped.

Q Would you estimate you spent more than 10 percent of your time physically in the Channell offices before the move to Pennsylvania Avenue?

A I would say yes. 10 percent, that would be safe to say.

Q Between 10 and 25?

A 10 to 20.

Q Do you have an undergraduate degree in accounting?

A Yes, sir.

Q Where did you receive that degree?

A The University of Maryland.

Q Do you have any graduate training?

A I have my CPA certification.

Q What state?

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A Maryland.

Q When were you licensed as a CPA in Maryland?

A I believe it was 1979.

Q Are you a member of the AICPA?

A God, I don't know. I know I am of my state board. I don't know if I am for the national.

Q The state board being Maryland?

A Yes.

Q Do you have a license in any other jurisdiction than Maryland?

A No, sir.

Q Were you ever a member of the AICPA?

A I believe I was when I was with Price Waterhouse. In fact, I'm pretty certain I was. And I know I went out, when I went into Alexander & Alexander, which is a private corporation, I didn't maintain my AICPA involvement.

I remember looking into it a year or so ago, and I don't know if I actually did it or not.

Q So you are not sure if you are presently a member?

A No, I don't think I am, because I would probably be getting lots of mail from them if I was, and I don't, so I probably am not.

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Q Have you ever been the subject of any disciplinary proceeding by the state board in Maryland?

A Oh, no.

Q You are aware that several subpoenas have been served by the House Select Committee and the Senate Select Committee on you personally and also on various organizations associated with Mr. Channell, are you not?

A Well, I was made aware that they actually existed today. I have never seen them.

Q Did you have any role in collecting documents to produce in response to those subpoenas?

A I don't know how I'd answer that.

MS. LUBIN: I had a role in collecting documents, but we started collecting them before your subpoenas were served, because other subpoenas had preceded them. He collected a whole mess of documents. We'll start with that.

BY MR. FRYMAN:

Q What did you do in the way of collecting documents in the response to any subpoena that has been served?

A Basically we gave the subpoenas to Elaine's firm, Swidler & Berlin, and they took it from this to help us get this, help us get that. They came and took a sweep of the

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office to see what was there.

Basically our effort has been to turn over the documents to them for their review and production.

Q Well, what have you done to make sure that all documents called for in any subpoena have been produced?

A We've given -- I have given everything that I know exists to Elaine's firm.

Q Are you talking about documents in your own particular area?

A Yes. Because I'm not familiar enough with the rest of the organization to know.

Q Have you had any role in collecting documents in other parts of the organization, other than the accounting area?

A No. Not -- no. Except to just show these guys where the file cabinets were.

MS. LUBIN: That's true. The first weekend he was the only person there, and he showed us where drawers were. Showed us where the cookies were, too.

BY MR. FRYMAN:

Q You said that you began to work for Mr. Channell's organizations, I believe, in 1984; is that correct?

UNCLASSIFIED

A Yes.

Q Do you know the reason that Mr. Channell retained you?

A Well, not specifically. I had advertised in local newspapers, and I got a call from Wilber Rou Beehler, who was the treasurer for Mr. Channell, Channell Corporation at the time.

Q Could you spell the name?

A B-e-e-h-l-e-r. He contacted me, we met for lunch, and we discussed my background and my knowledge and things like that, and he offered the position to me at the time. It was very much a part-time thing then. Roy had a full-time corporate position himself and was doing accounting work for Mr. Channell part-time, like on Saturdays and things like that, and it had grown beyond those needs -- had grown beyond that.

At that time I came in, worked there maybe one day, two days a week, something like that.

Q Had you known Mr. Channell or had you ever met him before placing this advertisement?

A No, sir.

Q Where was the advertisement placed? What publication?

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A I think I ran one ~~in the Post and there was~~ a local business guide. I had several ones out there at the time. I think one of the local neighborhood papers.

Q You were interviewed first by Mr. Beehler?

A Beehler.

Q At what point did you meet Mr. Channell?

A It was at least several weeks after I started doing work there.

Q Who hired you?

A Mr. Beehler did.

Q You have indicated that you continued to do a substantial portion of your work for the Channell organizations at your home; is that correct?

A Yes, sir.

Q Do you maintain at your home records relating to the Channell organizations?

A Not as such. Once we moved into the Pennsylvania offices, there was plenty of filing space that I could move those things back to their offices.

Q How do you work at home if you don't have any records there?

A I have my computer at home.

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Q And you have computer disks there or some sort of data source there, a journal?

A Yes, I can carry the diskettes back and forth with me.

Q And you keep a duplicate set at your home, of disks?

A I had some diskettes, yes, at home, that were duplicates of what was there. They have all been turned over.

Q Anything other than disks?

A I have a hard memory drive on the computer, and all of that has been printed out and turned over as well.

Q So your search for documents in response to subpoenas included any materials that were in your home as well as the office?

A Oh, absolutely.

MS. LURIN: We sent a memo to all employees asking for all documents -- all employees and consultants.

BY MR. FRYMAN:

Q Would you say your responsibilities with respect to the Channell organizations -- and by the Channell organizations, I mean the National Endowment for the

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Preservation of Liberty as well as other organizations that are associated with Mr. Channell -- that's a meaningful phrase to you, is it not? The Channell organizations?

A Yes. Yes.

Q You said that you began to do work for the Channell organizations in the summer of 1984.

A Yes.

Q Have your responsibilities basically been the same from the summer of 1984 to the present?

A No. In the summer of '84 and most of '85, I had to actually do the accounts payable log and the receivables, prepare the financial statements, the bank reconciliations, things like that.

By early '86 the volume of that work had gotten just way out of hand for one person, and we hired someone to take over and do the receivables/payables kind of thing. I think it was in February of '86, I continued to do the review of it, the bank recs, payroll, tax filing, all of those -- everything else.

Q So is it fair to say that you have had general responsibility for the day-to-day accounting functions of the organizations, but in the later period you have performed

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those responsibilities in more of a supervisory capacity than in a direct entry-making capacity?

A Yes. To the best I could. I mean, there still isn't adequate staff to handle it, I don't think. So my supervisory efforts were limited. But, yes, you could say that I was sort of in charge of that.

Q You say you were sort of in charge, Mr. McMahon. Were you the person in charge of the accounting side?

A Right but what I don't want to construe is that I was in a day-to-day review capacity. Time didn't allow me to do that. That's, you know, what I'm trying to get out. But, yes, I was in charge of the staff person that assisted with the accounting efforts.

Q And you did it as best you could?

A Yes, sir.

Q Now, you say in February of 1986 a staff person was hired to work --

A Yes, sir.

Q -- under you or for you?

A Yes, sir.

Q Was that person an employee of the Channell organizations?

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A Yes.

Q Who was that person?

A Philip Meo.

Q Did you hire Mr. Meo?

A Yes.

Q Had you known him previously?

A Yes.

Q' What led you [illegible] conclude that he was the person that you needed as your assistant?

A Well, I knew -- I needed someone as quickly as I could get at the time. We were just inundated with the work. And I knew that Philip was looking for work, and I thought at the time that the job could be handled by a clerk type.

I later discovered around May, not many months later, that the position was far -- far and above his level of experience and knowledge.

Q So what happened then?

A We began pursuit, then, to get resumes and interview to have someone else take over the position.

Q Did you hire someone else?

A Yes, we did.

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Q Who did you hire?

A Becky Pritchett.

Q When did you hire her?

A I think she began on August 11th. We had gone through the process and selected a candidate, made an offer to him. By that time, by the time we got around, like two weeks later to finally give him a firm offer, he had already accepted another position, so we were back at square one to start over again with the whole process. That's why it took three to four months to finally get someone in there.

Q When did Mr. Meo leave the employ of the Channell organizations?

A In mid-August.

Q Have there been any other employees in the accounting area, other than Mr. Meo and Ms. Pritchett?

A There is now. Becky is -- she's quit. She left in February. And Michael Barnes has taken over her position.

Q What was Mr. Barnes doing before February of 1987?

A He worked for a custom carpet firm, the Design Center. And prior to that he was in the economics field.

Q He had no prior association with the Channell organizations before February?

A I knew Michael. In fact, he lives in the unit that is in my house. We have been friends for several years.

In December he was like my right arm in helping me with all the year-end work for the Channell companies. When Becky decided that she was leaving, I asked Michael if he would be interested in stepping into her position, especially because he was so familiar with it by that point, and I asked Dan if that would, you know, if that was okay, at least on a temporary basis. And he said, you know, it's fine with me, but of course we have to discuss it with Spitz and see if he wants -- if he agrees.

That finally took place late in March.

Q Does Mr. Barnes have a CPA?

A No, he doesn't.

Q Does he have a degree in accounting?

A I don't believe so.

Q You believe that Mr. Meo was -- did not have adequate training to fulfill the duties --

A Right. That was more demonstrated after he began to work in the position and the same kinds of errors and problems continued to happen over and over and over again.

Q Well, does Mr. Barnes have any training that Mr. Meo did not have in the accounting area?

A I -- he has told me that he's worked in the area of finance and economics for many years, earlier on. And, with working with him day to day, on a day-to-day basis from early December through January, he demonstrated to me by those efforts that he was grasping what I needed him to and it was working out quite well.

I'll have to tell you, I was very hesitant to even offer any kind of a position to him, especially in light of what had happened with Phil, you know, a friend of mine. But he had demonstrated the skills necessary to do the job and he is doing a very good job.

Q You had, I take it from your position, extensive contact with Mr. Meo while he was an employee there and with Ms. Pritchett while she was an employee there, did you not?

A Yes.

Q Ms. Pritchett was still an employee at the end of 1986; is that correct?

A Yes, sir.

Q In December 1986.

A Yes, sir.

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Q Yet I believe you indicated that you relied extensively on Mr. Barnes in that period to assist you?

A Well, yes.

Mr. Channell closed the offices down in December -- I don't know the exact date, but it was mid-December, 12th? 13th? 15th? Somewhere around that time frame.

Q What was the reason for that?

A Well, the reporters kept coming into the office constantly. We were quite visible in the press, and he just felt it was best to shut the offices down and for us to go home for Christmas.

Q But Becky Pritchett stayed on the payroll at this period, did she not?

A Oh, everyone did, yes. But Becky -- she was on home and on leave as everyone else was, but Michael, as I was telling you, he lived in the house with me and I asked him for his help and he said, sure, I'll do what I can for you. So he was my right arm through those last two weeks of December in trying to finish out the year-end work and prepare the financial statements and get ready for payroll filings and W-2s and all of that stuff.

I mean, for me -- for an accountant to shut down

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on December 15th is ludicrous -- I mean you can't. You just can't. That's not the time of year to take a vacation in that area.

Q Why didn't you ask Ms. Pritchett to report to work at your house?

A I asked her if she would be available.

Q What did she say?

A She said yes, that she would be. But in light of the whole circumstances going on, I just felt it was best to not involve her with any of this stuff.

Q What do you mean by that, in light of the whole circumstances going --

A Well we kept reading things in the papers I was -- trying to associate Mr. Channell's operations with the Iran affair. She was very nervous about that, asking have we done things wrong? I said I don't know.

She was very uneasy about it.

Q Was Mr. Barnes uneasy?

A No.

Q Did you ever discuss with anyone else in the Channell organization using Mr. Barnes and not Ms. Pritchett for the work during this period?

A I think that I passed it by Dan or Spitz, at least that they were aware that Michael was assisting me.

Q Did you also tell them that in substance Ms. Pritchett was very nervous and it would be better not to have her involved?

A I did have discussions with Dan on that exact issue. But this was probably early January, as I didn't realize the extent of how bothered by it that she was until we got back from the holiday when she said -- that was when she informed me that she was resigning.

It was kind of a shock to me, to say the least.

Q In the -- in 1986, when you were spending 115 percent of your time in the --

A I would say that's probably late '86 and definitely '87.

Q -- in work for the Channell organizations, and you were spending, in 1986, a substantial amount of your time actually in the Channell offices at your desk, I take it you had, basically, daily contact with Mr. Meo, while he was there, and Ms. Pritchett, while she was there?

A Yes. I would say for the most part, yes.

Q Now, how frequent was your contact with

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Mr. Channell? Did you have daily contact with him?

A No.

Q Did you speak with him --

A Weeks could go by and I wouldn't speak to him.

Q Well, in the average month, say during 1986, how many times a month would you speak with him?

A Once, maybe twice.

Q Would he send you written notes from time to time?

A Not written as such. Sometimes -- I mean -- well, I can think of a couple, maybe. When he would give someone a raise he'd put a note in there to me: Steve, you know, raise Angela's salary. Things like that. But I didn't get written memos from him as such.

Q But you had occasion to see written notes from him from time to time, be it notations on forms or --

A Yes. Yes.

Q Did you become familiar with his handwriting from seeing these notes?

A Oh, yes.

Q So you consider yourself familiar with the way he writes?

A Yes.

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Q Okay. What about your contact with Mr. Conrad? How frequently did you meet with him in 1986?

A That would have been much more frequently, because Dan was in the offices most of the time. I would say routinely.

Q Would you see him every day, on the average?

A No, not necessarily.

Q Approximately three or four times a week?

A Yes. Yes.

Q Would you have discussions with him about various financial or accounting questions?

A Yes.

Q Is he the principal person in the organization that you would report to on financial or accounting matters?

A Yes.

Q Did you receive notes or messages from him from time to time?

A Yes.

Q Are you familiar with his handwriting?

A Yes.

Q Did you have contact with Mr. Smith?

A Yes.

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Q How frequently in 1986 would you meet with Mr. Smith on the average, in any week?

A It's like Mr. Conrad, two or three times a week. They weren't like meetings as you'd think of meetings.

If I had a quick question I'd pick up the interoffice and ask him, you know, that kind of thing.

Q Did you consider that you reported in any way to Mr. Smith?

A No.

Q What was the reason for the contact or meetings with Mr. Smith?

A Well, he and Dan would be generally in, at least I thought anyway, in discussion with Spitz on day-to-day business and operations. If I had a question I figured that Cliff or Dan would be the one -- would have the knowledge to answer it. So that's why ~~me~~ I would go to them.

Q Did you, from time to time, receive written messages from Mr. Smith?

A Yes.

Q Did you become familiar with his handwriting?

A Yes.

Q Did you, during 1986, ever have any face-to-face

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meetings with Mr. Littledale?

A Not meetings. He would stop into our area and chat. But not meetings, no.

Q Would these contacts be infrequent? These face-to-face contacts?

A Yes.

Q Would they, on average, be more than once a week?

A No. It was no more than just idle, you know, office workers passing by: "How are you doing today?" "Fine."

That kind of thing.

Q So you generally didn't have any substantive discussions about the operations of the organization with Mr. Littledale; is that correct?

A Yes. That's correct.

Q Did you ever receive any written messages from Mr. Littledale in your work?

A No. Not that I'm aware of.

Q Do you believe you would recognize Mr. Littledale's handwriting?

A Not necessarily, no.

Q What about Ms. McLaughlin?

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A I'm not sure I would recognize Jane's either.

Q Did you have much contact with her?

A Just the same with Kris. With the rest of the workers, it was on a normal office, "Hi, how are you today?" That kind of thing.

Q When was the last time you spoke with Mr. Meo?

A August -- I'm trying to give you the last date, but the last day he was there, in the office [illegible] working.

Q You haven't spoken with him by phone since then?

A No, sir, I haven't.

MR. FRYMAN: I ask the reporter to mark this document as McMahon Deposition Exhibit 1 for identification.

(McMahon Deposition Exhibit 1 identified.)

BY MR. FRYMAN:

Q Mr. McMahon, I show you McMahon Deposition Exhibit 1 for identification, which is an article in The Washington Post of March 12, 1987, appearing on page A-26, headed "Donor Intended to Buy Contras Arms." Have you seen that article before?

A Yes, sir. I have read it.

Q Are you aware that there is a statement in that article that Mr. Meo attributes to you?

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A Yes, sir.

Q And that article indicates that the reporter contacted you and you declined to comment. Is it correct that you declined comment?

A He called and asked me if I wanted to talk about the Channell organizations, and I declined to.

Q Mr. McMahon, I would like to ask you some general questions about the bookkeeping for the Channell organization, if I might.

A Okay.

Q What were the sources of funds for the Channell organizations?

A Well, all individual people.

Q Basically contributions?

A Yes, sir.

Q And was there any other source of funds? Was there any interest income or any dividends?

A Slight. Slight. But not -- it was not a major part of our financial revenues.

Q So the major -- by far the major portion of the revenues was donor contributions?

A Yes, sir.

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Q If you could just lead me through an example of how the bookkeeping would work on a contribution? Just assume that, in August of 1986, an individual donated $100,000 to NEPL.

A Okay.

Q What would be each specific bookkeeping step after the check arrived at the office?

A Once the check arrived, typically the mail would be opened by Angela, at which time she would enter -- she kept a logbook, handwritten logbook. She entered the contributor's name and the date, the amount of the check and which organization it was for, and I believe at that point in time she was also trying to maintain a log of what project it was raised for and which solicitor raised the money.

She would then make a photocopy of the check for her files; a photocopy of the check and send it -- and mark -- she would sometimes mark on there what project and who the solicitor was. Because we, in the accounting area, we didn't know that information. We had no way of knowing it.

Q You had no way of knowing the solicitor?

A Right. By that point in time, I mean certain names we knew, that maybe they were Cliff's person, or

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certain ones were Jane's, things like that. But generally speaking, we would wait to get the indication from Angela. And if she didn't know, she would ask the various fundraisers. And she would generally try to indicate on there what project it was or, when she carried the check copy back to accounting along with the check, she would verbally indicate to Phil, this is Clift and it's for food. And then they would handwrite on there what it was.

Q All right.

A Then it would be deposited into the bank, appropriate bank account. And then -- well, when it - back up a minute.

When it would come into the accounting area, Phil also kept a manual log and indicated the same kinds of things that Angela had.

The manual log was intended to be phased out, because we had set up a screen on the computer to log this information in. I didn't phase the logbook out, though, while Philip was there, because he never managed to get much hang of the computer. It was riddled with errors.

Q The computer was riddled with errors?

A Yes.

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Q The logbook continued in operation for how long?

A I continued it all the way through 1986. And that started ~~when~~ shortly after Phil came on.

Prior to that, the only information we had in accounting for a contributor was on the check stub itself with the deposit, and that was a year-end task, to pull together the complete listing.

Q How would you have a check stub on a deposit?

A Check stub in the checkbook. Like in your checkbook where you write the deposit.

Q You would fill in the deposit?

A Yes. We put the person's name.

sb March

Q On the logbook that was maintained from February 1986 through the end of 1986 by, I assume, first Mr. Meo and then--

A Then Becky.

Q -- then Ms. Pritchett; is that logbook still in existence?

A Yes.

Q Has that been produced?

A Yes. I think.

(Discussion off the record.)

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THE WITNESS: It's the handwritten one?

MS. LUBIN: Has it got a blue back and see-through cover?

THE WITNESS: Yes.

MS. LUBIN: Yes, it has been produced. Yours wouldn't have a blue back and a see-through cover, though.

BY MR. FRYMAN:

Q The check would come from the fundraiser to accounting, as I understand what you said.

A Well, from Angela it would --

Q Or from Mr. Channell's secretary, Angela Davis, it would come --

A Right.

Q -- to the accounting department?

A Right.

Q And what, generally, what she have noted on the check? What sort of information?

A She would generally try to discern who was the solicitor, who raised the money, and what project it was for. I don't know really how she did that, except by asking fundraisers, I guess. I don't really know.

Q And then Mr. Meo and later Ms. Pritchett would

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make entries in the logbook.

A Yes.

Q And the check would be deposited to a bank account?

A Yes, sir.

Q Who decided which bank account it would be deposited to?

A Again, that would generally be written on the check, if it was to go into any particular one. And I don't know, again, who made that decision. I don't know if it was -- I don't know.

Q Suppose it wasn't written on the check. Would you make the decision?

A If it wasn't written and Phil asked me, where do I put this, I would generally have to make the judgment call. Put it in special 1. Or put it in regular. And that was generally dependent on where the other deposits had been going for that time frame.

Q You mention that during the period Mr. Meo was there, there were a lot of problems with entry of data into the computer.

A Yes, sir.

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Q When was that material corrected, if ever?

A In December, when I was doing the year-end reconciliations. It was a nightmare.

(Discussion off the record.)

BY MR. FRYMAN:

Q You have spoken of the logbook that was maintained, and you have said that that had various types of information on the log.

A Yes.

Q Were there also entries made that would be the traditional accounting journal entries? A debit and a credi to reflect --

A On that log? No.

Q Or someplace else?

A Eventually. At month end we had a general journal where journal entries would be made. But I did that.

Q You did that yourself?

A Yes.

Q And on the example I've given of $100,000 contribution, the debit entry for the journal entry for such a contribution, would that be a debit entry to a particular bank account?

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A Yes, sir.

Q Such as the Palmer regular account?

A Palmer regular, Palmer special 1 -- yes.

Q And the credit entry on a contribution such as that, what would be an example of a credit entry?

A It would go to contribution income on the income statement and the logbook and the computer -- which was supposed to be a matched picture of the logbook -- was the supporting journal, subsidiary ledger that supported the contributions for that month, who it came from and how much.

Q You referred to project designation.

A Yes.

Q Would the credit entry in the journal reflect a project designation in any way?

A No. No. In the subsidiary ledger we tried to track project information, but not in the general journal and the actual journal entry. That was on a very summarized basis.

Q The logbook that you referred to, you indicated, I believe, listed the solicitor and the project?

A Yes.

Q Was the information in that logbook also entered into a computer data base of some sort? And specifically the information about the project and the solicitor --

A The logbook that we kept in accounts? Yes. That was the Lotus spread sheet that we had developed that was supposed to be the mirror image of the handwritten one, which we found was not the case.

Q All right. All right.

Now, turning from revenue items to expense items, if you could lead me through the accounting steps when a check or payment of some sort was made by the Channell organization?

A Okay.

Q Take a specific example, suppose there was a check for $100,000 to International Business Communications.

A Okay.

Q What would be the different steps of processing that transaction?

A On the checks that went to IBC, we were given verbal instruction from either Spitz, Cliff or Dan to make a check out to IBC for $100,000, and we would generally have to ask them, did they want from a specific bank account, and if they said yes, special 1 or special 2 or something, then we would draw it from that account. If they didn't, you know, give any indication, we would look and see which bank account had, you know, the funds in it. And draw it from that. And we'd log that in.

The way the financials keep the project expenditures is by the various project vendors. It is not until after year end, preparing tax returns, that we go back and try to establish what projects specifically, what programs were worked on, to develop the 990 information.

It is tracked strictly by vendor, project vendors, during the course of the year.

Q So you would -- in the example I gave, you would receive a direction from Mr. Channell to pay $100,000 to IBC.

A Right. Him or Dan --

Q Or someone.

A Yes.

Q And they might or might not specify the account that that was to come from.

A Right.

Q Would you draw the check?

A Me write it personally?

Q Yes. Would you prepare the check?

A Sometimes I might have. Or Becky may have, or Phil may have.

Q All right. There would be an entry made in the check stub at the time you drew the check --

A Right, right.

Q -- as to the payee?

A Right. And then we had a cash disbursements book, ledger, where the check numbers would be logged in, the payee, the dollar amount. And then what general expense heading it went under.

IBC would go under project expenditures.

Q Right. At the end of the month, did you go through the checkbooks and make more formal journal entries with a debit to a particular project and a credit to a particular bank account? Or what was the process?

A Well, it would get posted into the cash disbursements ledger and we generally had -- we would do all the regular bank accounts, all those checks, spread them out to the various expense accounts, the next page might be the special ones, and the bottom line from that would be what would develop the general entry, debit and credits, ~~debit~~ credit the cash, and debit the various expenses that occurred.

Project expenses, like I told you, they were only tracked by the particular vendor in any particular month.

Q All right.

A So that month it might show "Projects: IBC, Robert Goodman Agency," things like that. We don't have an automated system. We were getting one, but we didn't have one at the time that gave us a nice detailed breakdown, tracking system for all the different projects. That's a manual task that we still have yet to do.

Q Okay. Now, going back to the discussion about the specific example, what would happen if Mr. Channell or Mr. Conrad would tell you to draw a check out of a particular bank account and there were inadequate funds in that account to cover that check?

A We would usually have to make the judgment call and transfer monies in from one of the other NEPL accounts.

I think Spitz had a concept of project accounting via bank accounts, but that's not how it worked. I mean the monies moved between the bank accounts of NEPL as they were needed. The general, NEPL regular, was for paying bills. If there wasn't money in that account, then it would get transferred from whichever NEPL bank account had money in it.

Q Okay. And you said that during the period at year end 1986, you spent a substantial amount of time correcting some of the computer data base; is that correct?

A Yes. Yes.

MR. FRYMAN: Why don't we recess for about five minutes.

(Recess.)

BY MR. FRYMAN:

Q Mr. McMahon, before we commenced this afternoon, we had a brief discussion about various subpoenas that had been served by the House Committee and the Senate Committee.

Specifically, you have been served, have you not, with a deposition subpoena from both the House Select Committee and the Senate Select Committee directing --

MS. LUBIN: I think they were served for him.

BY MR. FRYMAN:

Q Is it correct your counsel accepted service on your behalf?

MS. LUBIN: We'll stipulate to that.

THE WITNESS: Yes.

BY MR. FRYMAN:

Q And you understand that you are appearing and

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testifying here today pursuant to subpoena?

A Yes, sir.

Q And you are testifying under oath?

A Yes, sir.

Q And that the various criminal, federal criminal provisions relating to perjury would be applicable to any testimony in this proceeding; you understand that?

A Yes, sir. Yes, sir.

Q With respect to your work for Mr. Channell, which began in mid-1984, did you ever have a formal engagement letter with the Channell organizations?

A No, sir.

Q Before we broke, we were talking about information that was entered on a logbook and was also entered into a computer data base. Do you recall that discussion?

A Yes, sir.

Q Now, the information in the data base was then used, was it not, to prepare various financial reports for the Channell organization and for various Channell employees?

A Yes.

Q Is that correct?

A Yes.

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MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 2 for identification, pages 27583 through 27586, which have been produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 2 identified.)

BY MR. FRYMAN:

Q Mr. McMahon, would you look at the four pages which comprise McMahon Deposition Exhibit 2 for identification, and tell me what those pages are?

A Okay. They look to be the April '86 contributions. Each page is sorted by a different identifier.

Q Which is the first page?

A The first one I'm looking at is sorted by date, original entry.

Q And the second?

A By project.

Q And the third?

A By solicitor, and finally by bank account.

Q Was this exhibit prepared from the computer data base that we have been discussing?

A Yes, sir.

Q Can you tell approximately the time that it was prepared?

A No.

Q This is a report for the month of April, is it not?

A Right. But I don't know whether this version of it that is in front of me is one done back in April or if it's the reconciled one at year end. I don't know.

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 3 for identification the following pages, which have been produced by counsel for the Channell organization: Pages numbered 16143, 16148, 16152 and 16153.

(McMahon Deposition Exhibit 3 identified.)

BY MR. FRYMAN:

Q Would you look at those four sheets, Mr. McMahon, and identify those sheets?

A They look to be sorts of the contribution data base by the individual fundraisers, certain of them. And they look to be from a period January '86 through sometime in August. It looks -- I see one here, August 28th, so that would be all the way through August of '86.

Q Were these printouts prepared from the same data

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base that we have been discussing?

A Yes, sir. But, again, that data base is -- it's on a diskette and it's constantly worked on and updated, so I can't tell you what version this is of that.

Q But this material came from what was the data base at some point of the Channell organization?

A Yes, sir. Yes, sir.

Q Is that correct?

A Yes.

Q And these are reports of contributions for Chris, Spitz, Cliff, and Jane, are they not?

A Yes, sir. Yes, sir.

Q Separate sheets for each of those individuals?

A Yes, sir.

MR. FRYMAN: I ask the reporter to mark as McMahon Exhibit 4 for identification, pages numbered 16126 and 16125, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 4 identified.)

BY MR. FRYMAN:

Q Would you identify those sheets, Mr. McMahon?

A Again, they look to be from the contribution data base diskette, and they appear to be the NEPL contributions

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from January '86 through at least August 28 of '86. Probably prepared at that point in time, the data that was on the diskette, probably August, September.

Q And I take it from your answer that these were prepared from the NEPL data base at that time?

A Yes, sir.

Q Now, I direct your attention to McMahon Exhibits 2, 3, and 4, and I ask you to look in those exhibits at a contribution from Mr. O'Boyle, in the amount of $130,000 on the 1st of April.

A Yes, sir.

Q Do you see that contribution?

A Yes.

Q What is the project that is identified in those exhibits for that contribution?

A It's called "Toys" on Deposition 2.

Q Does it also appear on 3?

A Yes. Under -- it's on Jane's page, on Deposition 3.

Q And what is the project?

A It's indicated "Toys" on that one as well.

Q Would you look at Exhibit 4.

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A And, again, it is on the first page of Exhibit 4, the very first entry. The project is called "Toys" there as well.

Q Would you look in those three exhibits again and locate a contribution on April 9, from a Mr. Giddens?

MS. LURIN: Giddens?

BY MR. FRYMAN:

Q Mr. Giddens for $32,500?

A Okay. I found that one.

Q What is the project identification for that contribution?

A It's also indicated as Toys.

Q Does that appear in each of those three exhibits?

A Yes. For deposition 3 under "Kris." And yes, on Deposition 4, page 1.

Q I direct your attention, again, to Exhibits 2, 3 and 4, to a contribution from "Garwood" in the amount of $470,000 on April 16.

A Yes, sir.

Q What is the project identification in those exhibits for that contribution?

A "Toys" on Deposition 2; "Toys" on Deposition 3;

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and "Toys" on number 4.

Q I again direct your attention to those three exhibits, to a contribution in January 1986 by Mr. Claggett for $20,000. I ask you what is the project identification for that contribution?

A "Toys" on number 3; "Toys" on number 4.

Q And is it "Toys" on number 2 as well?

A It doesn't appear on number 2. That's just April.

Q Now I direct your attention to a contribution on May 20, by Garwood, of $350,000, and I ask you to identify the project?

A "Toys" on number 3; and "Toys" on number 4.

Q And I direct your attention with respect to those exhibits for a contribution on May 29 by one Hooper for $100,000 and I ask if there is a project identification for that contribution?

A "Toys" on number 3 and "Toys" on number 4.

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 5 for identification, pages produced by counsel for the Channell organizations numbered 28659 through 28662.

(McMahon Deposition Exhibit 5 identified.)

BY MR. FRYMAN:

Q Would you identify McMahon Exhibit 5 for identification?

A This is cash receipts -- I think it says through 10/31/86.

Q Is that 1986 cash receipts?

A Yes.

Q Was that prepared at some point from the computer data base of the Channell organizations?

A Yes.

Q Was that prepared at your direction?

A How do you mean, printed out?

Q Yes. Did you ask to have this schedule prepared? Or printed?

A No. I probably printed it.

Q You probably printed it. Would this be on your computer at home?

A No.

Q Where would it be?

A Probably at work.

Q All right. Now, in this schedule, Mr. McMahon, I

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direct your attention to the same transactions that I've asked you about on the other schedules, and particularly a $130,000 contribution by O'Boyle on April 1.

What is the project referred to for that contribution in McMahon Deposition Exhibit 5 for identification?

A It is called "TV ads."

Q And I direct your attention in this Exhibit 5 to a contribution on April 9 by Giddens for $32,500. I ask you what is the project identification for that contribution in this exhibit?

A It's also "TV ads" on this one as well.

Q I also direct your attention to the April 16 contribution by Garwood for $470,000.

A That says "TV ads," also.

Q And the same question with respect to the contribution by Claggett for $20,000 in January 1986?

A It says, "TV ads."

Q And the same question with respect to the contribution by Garwood for $350,000 on May 20?

A "TV ads."

Q And the same question for the contribution by

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Hooper on May 29, for $100,000?

A "TV ads."

Q Now, for each of those contributions the project designation has been changed from "Toys" to "TV ads." Is that correct?

A Yes, sir.

Q Did you direct one of your subordinates to make that change in your computer data base?

A Yes.

Q Did you direct Becky Pritchett to do that?

A Yes, she assisted me in helping doing it as well.

Q And why did you tell her to do that?

A Because Spitz or Dan, I don't recall which one, asked me to do it.

Q Did they tell you why they asked you to do it?

A To the best of my knowledge it was because they didn't feel that "Toys" was a good name for the project and to that same extent, for our program, expenditures and tax return preparation, we consolidate everything that is the Central American Freedom Program and report it as one main effort, and it was along those lines that they said to change all the "Toys" indications to "CAFP."

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Q You had told Philip Meo, had you not, that "Toys" was a designation for weapons?

A I have testified to this in the grand jury. What I recall of it, I do recall jokingly saying to him that I doubted if "Toys" was the kind of thing you buy in a toy store. And I may have said guns and ammunitions. I don't recall if I did or not. But all of that is really my own assumption. I don't have anything that I have seen, heard, been told that tells me that. I don't know.

Q You said -- you also told Becky Pritchett, did you not, that "Toys" was a designation for a weapons account?

A I probably did, because my curiosities were such that it was my own assumption.

Q Well, I don't understand how your curiosities were such that it was your own assumption that "Toys" represented weapons.

Could you explain that?

A Well, I just didn't think that that kind of money was being raised to buy Toys, as you would think of in a toy store. It just seemed like too much money for playing toys.

Q You were aware, were you not, that code names were used in the Channell headquarters?

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A I didn't know that until it came out in the news.

Q You were not aware that "Green" was a code name used for Mr. North?

A No, sir.

Q Isn't it true, Mr. McMahon, that you were told that "Toys" was a code name for a certain project?

A I don't know what the certain project was. That's what I mean.

Q But were you not told that "Toys" was a code name?

A No. All I knew was that monies that were coming in at that time, we called them "Toys," as far as our project indications.

Q And what was the reason, again, that you understood you were told to change this at the end of the year?

A Basically that they didn't -- the name "Toys" could open up a bag of worms, so to speak, as to what it meant. That's the best I know.

Q Who told you it could open up a bag of worms?

A That's what my interpretation of the conversation is.

Q Who, again, told you to make the changes?

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A I don't recall if it was Dan or Spitz. One of the two of them.

Q When were you told to make this change?

A I think it was in early December.

Q Of 1986?

A Yes, sir.

Q And you were told by either Channell or Conrad?

A Yes, sir.

Q And was this at the same time that the offices were being closed down?

A Right about then, yes.

Q Was one of the reasons that the offices were being closed was to make various changes in the accounting records?

A No, sir.

Q Did you ask Mr. Channell or Mr. Conrad the reason for the changing of this "Toys" designation?

A Not specifically. I didn't really want to know.

Q Why not?

A I just didn't. I already had my curiosities, and I just didn't want to know.

Q You had been joking on -- as you phrased it -- on several occasions during the year with Mr. Meo, and

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separately with Ms. Pritchett, that "Toys" was a designation for a weapons account. Correct?

A Yes, sir.

Q You made those comments to them, independently spread over a period of time?

A Yes.

Q Same joke?

A Yes.

Q Isn't it true, Mr. McMahon, that you also had a conversation with Mr. Littledale about the meaning of the "Toys" account?

A People have asked me this question before. I don't recall a specific conversation with Mr. Littledale. I believe that he may have been the one to jokingly come up with that project name back in the early part of '86, but I do not know that for sure.

Q Well, why do you believe he may have come up with that designation?

A I have a vague remembrance of it and that's all I have of it.

Q Did you discuss the "Toys" designation with Jane McLaughlin?

A I don't know if I did or not. I wouldn't have reason to, but I don't know if I did. That's just the point. I don't know what the "Toys" designation really is, anyway.

Q Prior to this decision in December of 1986, with Mr. Channell or Mr. Conrad, about changing your computer data base, had you ever had a discussion with either of them about the meaning of the project designation "Toys"?

A I don't recall specific conversations.

Q Well, I'm asking for your best recollection. Do you recall any discussion at all with either of them about the designation "Toys" prior to December 1986?

A The only conversation that I recall at all, and it is vague, is the one we've talked about before where Kris -- it was in the evening in the offices. Kris was there, I was there, Spitz was there. I don't remember who else may have been there or not. And we were getting monies in at the time and it was going into the special 2 account and we were labeling it "Nic 2" at the time. I can remember asking, what should I call this? Is there anything -- any other name besides "Nic 2." And that's when "Toys" came up as the name to call it, but I don't know why and I don't know what it's for.

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Again, all I have are my own assumptions and curiosities on that.

Q Well, let's take them separately. What are your own assumptions?

A Well, I didn't think that they were for toys and I knew that we were supporting the Nicaraguan efforts, and I guess I let my imagination wander about what "Toys" might have meant.

Q What were your curiosities?

A Well, did it have anything to do with weapons and military involvement?

Q Is it your understanding now that these contributions that I have specified were used for TV ads?

A I don't know that for sure.

Q Well, I asked you what your understanding was.

MS. LUBIN: I think he answered the question.

THE WITNESS: I don't know for sure. Our system doesn't tell us that kind of detail.

BY MR. FRYMAN:

Q Have you had any discussions with anyone about what they were used for?

A I've discussed, I think with Spitz, and was told

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it's all humanitarian aid.

Q Not TV ads?

A That's hard to say. We have done TV ads --

MS. LURIN: Are you speaking about these specific?

MR. FRYMAN: Yes. Yes.

MS. LURIN: The April 1 and April 9 and April 17th.

MR. FRYMAN: Yes, the six contributions that I have specified in my questions were the project designation for each was changed from "Toys" to "TV ads."

THE WITNESS: I can't be certain of that. All I can tell you is I can be certain of this CAFP indication, the final bottom line of how much got spent on TV ads wouldn't come from a donor's file. It would come from the project efforts, the expense side of it. I can't tell you this. This was for internal information purposes only. You don't track program income.

BY MR. FRYMAN:

Q Mr. McMahon, have you ever denied that the "Toys" account was a designation for weapons?

A I don't know.

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Q You have no recollection of telling anyone that that was not the case?

A I don't know if it's for weapons or not, so I don't know if I've denied it or affirmed it. I don't know.

Q Well my question is, apart from your knowing or not knowing, have you ever told anyone that the "Toys" account was not a name or a code or some sort of designation for funds to be used for weapons?

A I don't know.

Q You don't know if you ever said that to anyone; is that your testimony today?

A Right. Yes. Yes.

Q Can you determine Exhibits 2, 3, 4 and 5, which bank account the five contributions I have referred to were deposited into?

A They went into the Palmer special 2 account.

Q How can you tell that?

A By looking at the "Patton" under "bank account" column.

Q Which exhibit are you referring to?

A I'm looking at number 3. I saw the first one on number 2, O'Boyle. It's indicated under bank account as

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"Patton," but that's the same name as the special two accou
at Palmer. They are one and the same bank account.

Q Was Patton a code name for that account?

A Hardly a code name. It was the name of the first contributor.

Q The name of what?

A The first deposit that we opened the account up with was from Mr. Patton.

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 6 for identification, seven pages of printouts headed, on the first page, "client/KP" and a final page with a handwritten sheet headed "NEPL contributions subsidiary by month 12/31/86."

(McMahon Deposition Exhibit 6 identified.)

MS. LUBIN: May I ask where you got these?

THE WITNESS: They look like they are ours --

MS. LUBIN: They don't have our numbers on them.

BY MR. FRYMAN:

Q Mr. McMahon, do you recognize the sheets that comprise McMahon Exhibit 6?

A For the most part, yes; they look like the year end printouts that we did for the auditors.

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Q These are materials you gave to Simmermacher & Felts?

A Yes, sir.

Q Were these prepared at your direction?

A Yes.

Q Now, if you would look at the same transactions that I had referred to in these sheets, particularly the April 1 O'Boyle contribution for $130,000; the April 9 Giddens contribution for $32,500; the April 6 Garwood contribution for $470,000; the January 1986 Claggett contribution for $20,000; the May 20 Garwood contributions for $350,000; and the May 29 Hooper contribution for $100,000; if you would look at those contributions and tell me the project designation on each of those?

A CAFP TV.

Q That is different, is it not, from the project designation on McMahon Exhibit 5?

A Yes, sir.

Q And for each of those, on McMahon Exhibit 5, the designation is "TV ads"?

A Yes, sir.

Q Now, what was the reason for that change?

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A Because when I tried to sort these things, I needed it to be the same indicator. Becky and I were both working on it making the ~~regional~~ change of Toys over to TV, and some were putting "CAFP TV ads," some were putting "TV ads." So, to make them all the same indicator, I think, that's the best I can remember.

Q When did you make this subsequent change?

A Oh, when I was reconciling the stuff in late December.

Q Did you make the change yourself in the computer data base?

A Yes. From this to that. Yes. (Indicating.)

Q The change that is reflected in Exhibit 5, you directed Becky Pritchett to make; is that correct?

A She did some of them and I did some of them.

Q But the change that is reflected in Exhibit 6, did you do all those yourself?

A Yes, sir.

Q Did you have any conversation with Mr. Channell or Mr. Conrad about that change?

A No.

Q Anyone else?

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A No.

Q You just did that on your own?

A I did that to help me sort my information.

Q When did you say that the "Toys" project name was first given to you?

A I think that it was in early '86; late '85, early '86.

Q What did you understand was the reason for a new project name at that point?

A They had established another bank account.

Q What was the reason for establishing another bank account?

A You'd have to ask Mr. Channell that. I don't know.

Q You have indicated that projects and bank accounts were not necessarily synonymous. In other words, a project was not necessarily coextensive with a bank account?

A Right.

Q Is that correct?

A Yes.

Q So why would the opening of another bank account require the opening of a new project?

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A That's to my -- to my knowledge, that's how Mr. Channell tended to think of it. But that's not in reality how it really worked.

Q Going back to McMahon Deposition Exhibit 1 for identification, Mr. McMahon, in that article Mr. Meo is quoted as saying: "I was told that the special account was for weapons only. All of our accounts had names. NEPL Number 2 was for 'Toys,' that was ammunition and weapons. Steve McMahon told me that."

Do you dispute in any way that press report of Mr. Meo's account of his conversation with you?

A Yes.

Q In what way?

A I don't believe I specifically said to him it was for weapons only, because I don't know that and I didn't know that at the time. "All of our accounts had names. Number 2 was for Toys" -- that is probably correct because anything and everything that Phil deposited into number 2 he called "Toys."

Whether I said it was for ammunitions and weapons, I don't know, as I told you before.

Q I believe you have indicated that you were not denying that you told him it was for ammunitions and weapons.

A I indicated that I jokingly said that I didn't think they were the kind of toys you buy in a toy store. Whether I said ammunition and weapons, I don't recall that specifically. In a joking way I may have. I have no basis for that. I do dispute one further thing that he says up above, where he says, "Meo, former bookkeeper: a select few contributors were solicited specifically for the 'Toys account.'"

Q I don't believe that is specifically attributed to you.

A No, but it says, according to Philip Howard Meo, -- what I'm establishing here is he would have no way of knowing. That he was not involved with the fundraisers. What I'm trying to point out further is his involvement was so limited --

Q The question, Mr. McMahon, is whether you are disputing any statement that Mr. Meo particularly attributes to you.

A Okay.

Q I don't believe that paragraph is particularly attributed to you.

A Okay.

Q Was the Patton account or the special account 2, was that used for anything other than contributions to the "Toys" project?

A Used -- do you mean how it was spent?

Q No. Were there contributions deposited to that account that were designated for anything other than the "Toys" project?

A I don't think so. Because I think the "Toys" project, as such, for a name, was default.

If Phil got a check copy back that was marked Patton on it, or special 2, he would automatically call that "Toys."

Q All right. Do you know if there were any transfers to this account known as the Patton account from other accounts?

A Within the NEPL organization?

Q Yes.

A I would say yes. We transferred money in and out of all the different accounts regularly. That's why it was so frustrating to work with all of these different bank accounts.

Q While we are on the subject of bank accounts, can you quickly -- or not so quickly, for that matter, just identify all of the bank accounts that you are aware of, that were used by the Channell organization in any way?

A Yes. I'll do it by organization.

For NEPL the plain accounts were at the Palmer National Bank. We referred to them as the regular account, special 1, special 2, special -- no, there wasn't special 3. That was called "Future Freedom."

Special 4 and special 5.

There were also accounts at E.F. Hutton, regular, special 1, and special 2.

We have an account -- I guess you could call it an account -- somebody gave us a contribution to the Irving Trust Bank that sits there. We get the interest from that.

I don't think there are any more for NEPL.

We have a certificate of deposit at Palmer National. That's not a bank account as such. And for the American Conservative Trust, that's also at Palmer. There's only one for that. The American Conservative Trust state election fund. That account is also at Palmer National. Just one.

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The Anti-Terrorists American Committee federal account is at Madison National. Anti-Terrorist Committee, state election fund, that's at Madison, Madison National; the Channell Corps itself is at Riggs National.

Sentinel is at Palmer National.

Grow Washington is at Palmer National. I think I've hit them all.

Oh, Western Goals, at --

MS. LUBIN: Western Goals Foundation?

THE WITNESS: Well, Western Goals Foundation -- Western Goals was at Sovran National; Western Goals Endowment was at Sovran National.

What we picked up as Western Goals Foundation, I believe was at Riggs National. That was very unclear in their records to us.

BY MR. FRYMAN:

Q Let me stop you. Western Goals was at Sovran National. Western Goals Endowment was at Sovran National.

A Right.

Q That's S-o-v-r-a-n?

A Right.

Q And the last one?

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A Western Goals Foundation.

Q And where was that?

A That, I believe, was at Riggs, when we got the books for them in May ~~of~~ or -- April, May, that realm. This account -- Western Goals, itself, no longer exists. Western Goals Endowment and Western Goals Foundation, we have changed their bank accounts, main accounts over to Palmer National. And we are in the process of closing out the Sovran Bank's in Virginia. And the Western Goals -- Western Goals Foundation and Endowment also have an account at Hutton.

ACF, that has an account at Palmer. Does it have one -- I believe it has one at Hutton as well.

Q The account referred to as the "Patton account" you said was the special 2 at Palmer; is that correct?

A Yes, sir.

Q Was the special 2 account at Hutton also referred to as the "Patton account"?

A No.

Q That's independent?

A It's -- yes.

Q It's a separate --

A We called that "Hutton number 2."

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Q Hutton number 2.

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 7 for identification, a page numbered 23080, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 7 identified.)

BY MR. FRYMAN:

Q ' Do you recognize that document, Mr. McMahon?

A Yes.

Q What is it?

A That looks like the full 12-month statement of operation for NEPL for 1986.

Q The YTD totals column, does that stand for year to date?

A Yes, sir.

Q That's for the full 12 months?

A Yes, sir.

Q What is the amount reflected for contributions?

A $7,024,939.

Q Is that the amount that you understand was the total of the contributions received during 1986?

A Yes.

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Q Is that for NEPL?

A That's NEPL.

Q That report indicates -- it says, "total additions." What does "additions" mean in that line?

A That's a term you would typically use in fund accounting. "Additions to the fund balance." You start with your fund balance at the beginning of the year --

Q You would use that term in place of "income" which would be in a profitmaking --

A Because it has profit and loss and things in there as well.

Q Right. And the total additions is $7,068,235.04; isn't that right?

A Yes, sir.

Q Beneath that total there are -- there is a list of disbursements, is there not?

A Yes.

Q And various projects; is that correct?

A They are project vendor names.

Q That's what you indicated earlier, project identifications were carried by vendor on your internal records?

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A Yes.

Q What does the amount $3,533,458.79 on the line "IBC" represent?

A That would be the total that NEPL disbursed to International Business Communications for 1986.

Q Were you involved in the preparation of those checks or money transfers?

A How do you mean "involved"?

Q Well, did you draw the checks?

A I would have occasion to, if I was told to, yes.

Q Or you would tell somebody else to who was working for you?

A No~~.~~ not usually Generally if I wasn't there, Dan or Spitz would tell Becky directly or Phil directly.

Q Do you recall drawing checks to IBC?

A Yes.

Q Do you recall making any wire transfers to IBC?

A Yes.

Q At whose direction did you do this?

A Again, that's always either Dan, Cliff or Spitz.

Q Did you have any invoices to support these disbursements that you were making?

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A On occasion we had invoices from IBC but generally speaking, no.

Q They just said transfer a certain amount of money and you did it?

A Yes, sir.

Q Did you ask any questions?

A Not really; no.

Q What did you understand those funds were being used for?

A I thought they were part of our Central America Freedom Program effort.

Q Did you understand they were being used at least in part to buy weapons?

A No, I didn't.

Q The next total is $838,018.67 for Goodman.

A Yes, sir.

Q What does that represent?

A That would be the monies that NEPL spent with the Robert Goodman Agency.

Q And what is the Robert Goodman Agency?

A They are an advertising firm that helped us in the production of our various television media campaigns. I

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believe they actually may have produced the videotapes.

Q Were checks drawn to that vendor supported by invoices?

A Yes, sir.

Q Always?

A Yes, sir. Not always up front. We may be instructed to send a wire to them in order to place the TV media buy. But they -- it was followed up with invoices.

Q But there was no such follow-up with respect to IBC?

A No. Not that I'm aware of.

Q The next line indicates $90,190.07 to Prodemca.

A Yes.

Q What does that represent?

A I don't know.

Q Do you know what Prodemca is?

A Not really.

Q Were you involved in drawing any checks to Prodemca?

A Not that I recall.

Q Any other sort of money transfers? Any other wire transfers? Were you involved in preparation of any wire transfers to Prodemca?

A It's possible. I don't know.

Q Are you saying you've never heard of Prodemca?

A No. I have heard of them. I know we spent -- sent money to them.

Q But you don't know what they are?

A No. I know they are not one of our typical administrative vendors so they, by default, go into project.

Q The next line is $22,500 to Edelman. What does that represent?

A Edelman is -- I don't recall what kind of firm they are. I remember they did work for us. What it was I don't know. I don't remember.

Q The next line is -- I may have misread the last line. The Edelman expenditure was $92,324.38. After that there is an indication of $22,500 to Blackwell.

What does that expenditure represent?

A That could be -- they were an advertising agency. They were helping us develop some of the TV campaigns, ads.

Q The next line indicates $6000 paid to Cameron. What does that represent?

A That's Bruce Cameron. That's all I know about that.

Q What does he do?

A I don't know.

Q The next line indicates $202,906.27 to "Other." What does that represent?

A In each month when I would make the journal entry if there were other insignificant amounts to what I thought -- considered a project vendor, they would go under this line item. So that's made up of various and sundry different project vendors and I'm sorry but I haven't had time to prepare a subsidiary supporting schedule of that for anyone. That's on my "to do" list.

Q The next line indicates $100,000 to Patricia Beck. What is that expenditure?

A She had given roughly $100,000; I guess $101,000 something or other -- during the tail end of '85, as a project effort. I believe they were going to have a speaker -- meetings, things like that. And the project was never kicked off and the money was refunded back to her.

Q The next line indicates $84,900 to Blakemore & Kiewlow. What does that represent?

A They were an ad agency as well and helped with the

TV ads.

Q The next line shows $450,000 to "Intel-Cooperation." What does that represent?

A That was the other firm like IBC. I thought they were one and the same thing when we were told to write checks to them.

Q Did you have any invoices supporting those checks?

A No, sir.

Q And what was the reason you drew checks to that corporation?

A We were instructed to by the executives and Spitz or Dan or Cliff.

Q $114,900 to Finkelstein is on the next line. What do those expenditures represent?

A Finkelstein -- it was like a marketing research project, I believe.

Q Is that a polling organization?

A I don't know, really.

Q All right. The next line shows $14,810 to Kuykendall. What does that represent?

A He was a consultant for project efforts.

Q The next line shows $40,000 payable to Nofziger.

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What does that represent?

A He was also a consultant.

Q For what?

A General consulting, I guess. I don't know. I never attended any meetings with him. I don't even know who the man is.

Q Finally, the last disbursement for projects is $1153.28 for Public Affairs. What does that represent?

A There was -- I think it was a demonstration that they staged the late -- latter part of '86 and they were the expenses of that.

MR. MC GOUGH: Let's go off the record for a second. I'm Tom McGough, I work with Jamie Kaplan.

(Discussion off the record.)

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 8, a document headed "National Endowment for the Preservation of Liberty, Statement of Net Assets, December 31, 1985." The document is composed of pages 27812 through 27818; produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 8 identified.)

MR. FRYMAN: I'll ask the reporter to mark as

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McMahon Deposition Exhibit 9 for identification, a document headed, "National Endowment for the Preservation of Liberty, Statement of Net Assets, January 31, 1986," which is composed of pages 29197 through 29199, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 9 identified.)

MR. FRYMAN: I ask the reporter to mark as McMahon Exhibit 10 for identification, document headed "National Endowment for the Preservation of Liberty, Statement of Net Assets, April 30, 1986," which is composed of pages 29125 through 29130.

(McMahon Deposition Exhibit 10 identified.)

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 11 for identification, document headed "National Endowment for the Preservation of Liberty, Statement of Net Assets, November 30, 1986," which is composed of pages 16550 through 16559, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 11 identified.)

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 12 for identification, a document headed "The National Endowment for the Preservation of

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Liberty, Statement of Net Assets, November 30, 1986," which is composed of pages 27820 through 27827, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 12 identified.)

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 13 for identification, a document headed "Anti-Terrorism American Committee Federal Election Fund, December 31, 1986," which is composed of pages 26628 through 26635, produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 13 identified.)

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 14 for identification, a document headed "American Conservative Trust, Federal Election Fund, December 31, 1986," which is composed of pages 26615 through 26627 produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 14 identified.)

BY MR. FRYMAN:

Q Mr. McMahon, I ask you to examine Exhibits 8, 9, 10, 11, 12, 13 and 14 and tell me if those exhibits were prepared under your supervision?

A Yes.

Q Do they represent the financial status of the particular organizations that they purport to represent as of the date indicated on each exhibit?

A Yes, sir.

Q Directing your attention to Exhibit 8, Mr. McMahon, when we were discussing Exhibit 7 we reviewed the particular project disbursements. Where does the comparable information appear in Exhibit 8?

A It wasn't broken down at the end of 1985 that same way, but it would be under a line called -- do you see "disbursements"?

Q Yes.

A Going down, the line called "Contributions." That line item as well as, if you go to the next page on there where it has July through December, there's an additional line item there called "Promotional Advertising."

Q The total for contributions is $1,600,032. Withdrawn.

$1,632,644.10; is it not?

A Yes, sir.

Q Can you determine how much of that represented transfers to IRC?

A For the months of August and September, specifically for IBC -- prior to August -- in the footnotes you may want to follow along -- prior to August the category included all persons, trusts and organizations that received funds from NEPL.

After, I would say August, September on through the end of 1985, that category would have been strictly IBC.

Q Did you receive any invoices or any other documentation from IBC?

A Not to my knowledge. I don't think so.

We would occasionally get an invoice for consulting fees, things like that. But not the major money that went to them.

MS. LUBIN: That's it for those?

MR. FRYMAN: I'd ask the reporter to mark as McMahon Deposition Exhibit 15 for identification, a file relating to Eric Olson, pages 57152 through 57163 of the documents produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 15 identified.)

BY MR. FRYMAN:

Q If you'll examine Exhibit 15, Mr. McMahon, you will note that page 57158 is what appears to be an invoice dated October 8, 1986 for consulting services for $10,000

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during October. The next page, 57159 is what appears to be another invoice for consulting services rendered during November 1986 for $7500. Page 57160 appears to be an invoice dated December 19 for consulting services during December for $10,000.

Page 57161 appears to be an invoice for consulting services rendered in January 1987 for $10,000. Page 57162 appears to be an invoice for consulting services rendered during February 1987 for $5000. And page 57163 appears to be an invoice for consulting services rendered during February 1987, again for $5000.

Can you tell me what the consulting services were that Mr. Olson rendered to the Channell organizations?

A He did some help with us, as far as our allocation system for the accounting efforts are concerned. But as to the nature of the remainder of his consulting services, you'd have to ask Mr. Channell because I am not aware of what that was.

Q So these invoices indicate he was paid approximately $40,000, do they not?

A Yes.

Q And the only thing you are aware of that he did

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was some work on what you describe as allocation of accounting services?

A No. An allocation system.

Q What do you mean by that?

A Well, with all of our organizations we have to allocate our administrative expenses and costs to the various organizations that they appropriately belong to. And he helped us in the discussions on that and occasionally ~~Ed~~ Eric would go over financial information with me.

Q Did he maintain an office at the Channell organizations at any time?

A No, sir.

Q The address on this invoice is [redacted]

privacy

[redacted]; do you know if that's Mr. Olson's home?

A I believe it is, yes.

Q Does Mr. Channell also live there?

A Yes.

Q Do Mr. Olson and Mr. Channell share a house?

A It's a condominium building.

Q They share a condominium?

A I think they have -- I think Eric's address is [redacted] and Channell's is [redacted]

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Q Do the condominiums adjoin?

A I think they do.

Q There is also in here, at pages 57156 and 57157, what appear to be bills or a bill for lamps, mirrors, et cetera, for $1915, from something called Olson Furniture.

A Yes, sir.

Q What is Olson Furniture?

A These were things that NEPL ~~[illegible]~~ bought from Mr. Olson when we went into our new offices to furnish our lobby and some of the other areas around us.

Q Does he have a furniture business?

A No, sir. I assumed These were used items that we bought from him.

Q What is it you understand Mr. Olson's occupation to be?

A I think that he's a management consultant.

MS. LUBIN: Can we have a short break?

(Discussion off the record.)

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 16 for identification, a check dated January 7, 1986 from the National Endowment for the Preservation of Liberty, payable to Shank, Irwin and Conant,

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for $237,500.

(McMahon Deposition Exhibit 16 identified.)

MR. FRYMAN: This check is reflected on page 10016 of the materials produced by counsel for the Channell organizations.

I also ask the reporter to mark as McMahon Deposition Exhibit 17 for identification, a group of checks which appear on page 16657 of the documents produced by the Channell organizations, including a cashier's check purchased by Shank, Irwin and Conant for $237,000 payable to the National Endowment for the Preservation of Liberty dated March 17, 1986.

(McMahon Deposition Exhibit 17 identified.)

BY MR. FRYMAN:

Q Now, Mr. McMahon, what was the purpose of the January 7, 1986 check payable to Shank, Irwin and Conant which is Exhibit 16?

A Okay. To my knowledge, back in '85 we were given a contribution through this attorney firm, Shank, Irwin and Conant, and it was in the ball park of around $500,000.

Shortly after we received it they notified us that half of that amount, the $237,500, they weren't going to

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contribute to us, they were going to actually make a loan to us of that much and I believe that it was Spitz and Dan's decision that they said: No, we don't want your loan. If you are not going to give it to us, forget it.

Referring back to Deposition Number 8 --

MS. LUBIN: 18?

THE WITNESS: 8. Statement of net estates for December 31, '85. This item here called "Note Payable." It says "Office Equipment" there. I believe it's an error on my template. It should say just plain "note payable" for the $237,500, that's the liability NEPL ~~Neville~~ had at the end of '85 to pay that back to them.

As you see in early January we, in fact, did send that money back to them.

BY MR. FRYMAN:

Q You say the contribution was made by this law firm on behalf of someone.

A Yes.

Q On whose behalf was it made?

A I believe it was Bunker Hunt.

Q Do you have -- do you know why he didn't make the contribution in his own name?

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A No, I really don't.

Q Well, did anyone ever say anything to you about why he didn't make it in his own name?

A No.

Q Would you examine Exhibit 17 for identification, which contains the cashier's check payable to NEPL for $237,000.

What do you know about that transaction?

A Again, I think it came from Mr. Hunt through his attorneys that he used. And I really don't know why -- we paid it back to him and then he turned around and gave it back to us. I don't know.

Q So you understand that that $237,000 was a contribution?

A Yes, sir.

Q Going back to Exhibit 16 for identification, you will notice that the explanation on the check says "repayment of note." You have referred to the note payable entry on Exhibit 8 for identification.

A Right.

Q As I understand your testimony, Mr. Channell was rejecting the idea of there being any money or any note with

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regard to this amount but was just returning the contribution.

A Yes.

Q Do you know why there was both the entry "repayment of note" on the check and "note payable" on the statement of net assets which is Exhibit 8?

A Really it's just a matter of terminology. It is possible -- I mean -- it could be argued that it should be, maybe, under "Contribution Refund." We put it on there as a liability, though.

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 18 for identification, various handwritten notes produced by counsel for the Channell organizations. Specifically this exhibit includes pages 20567, 20591, 27631, 27632, 27633, 27634, 27635, 27636, 27704, 27705, 27671, 27672, 27406 and 27406-A.

(McMahon Deposition Exhibit 18 identified.)

BY MR. FRYMAN:

Q Mr. McMahon, I will direct your attention to the first page of that exhibit, 20567. Is that Mr. Channell's handwriting?

A No. I don't think so.

Q Whose handwriting is it?

A It looks more to me like Mr. Conrad's.

Q I direct your attention to the next page, 20591. Whose handwriting is that?

A This also looks like Mr. Conrad's.

Q I direct your attention to 27631, whose handwriting is that?

A I don't know. I don't know.

Q Same question with respect to page 27632?

A Again, I don't know.

Q Same question with respect to page 27633?

A I don't know.

Q Same question with respect to 27634?

A I don't know on that either.

Q Same question with respect to 27635?

A This looks similar to Mr. Conrad's.

Q I direct your attention to page 27704. Whose handwriting is that?

A I don't know.

Q Is that Mr. Channell's handwriting?

A It doesn't look like it.

Q Is it Mr. Conrad's?

A I don't know. I don't know whose it is.

Q Would you look at page 27705. Whose handwriting is that?

A Same person as the other page but I, again, I don't know.

Q Returning to page 27704, that is dated 1/8/86, is it not?

A Yes, sir.

Q And there is a reference at the top to "Bunker's 237.5 on Monday"?

A Right.

Q Underlined, "January 20-February 5."

Do you recall any discussion of a contribution or funds in that amount from Mr. Hunt about that time?

A No. I think his ultimate monies came in in March.

Q There's also a reference to "Green's 400 K on Tuesday"?

A I'm not familiar with that.

Q Turning to page 27671, do you recognize that handwriting?

A This looks like Dan's, I think. Dan Conrad.

Q Turning to the next page, 27672?

A I'm not sure.

Q Turning to page 27406?

A This looks like Dan's again.

Q Do you see the reference to "Green shopping list."

A Yes.

Q Did you ever hear any reference to a "Green shopping list"?

A No, sir.

Q Turning to 27406-A, whose handwriting is that?

A I don't know. It looks a little like Dan's but - I'm not sure on that.

Q You see the reference at the top "60 K to Ollie ASAP"?

A Yes.

Q Are you aware of any sort of transfer of money to Oliver North?

A No, sir.

Q You were never aware of any transfer of money?

A I didn't even learn ~~of~~ that Ollie North had any involvement with us until after things came out in the newspapers.

Q So the answer to my question is no?

A No.

MR. FRYMAN: I ask the reporter to mark as McMahon Deposition Exhibit 19 for identification, a group of handwritten notes which appear on pages 23009 through 23018 in the materials produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 19 identified.)

BY MR. FRYMAN:

Q Mr. McMahon, would you look at Exhibit 19 for identification and tell me whose handwriting appears on those pages?

A This looks like mine. This is mine.

Q Is it yours on every page?

A Yes, sir.

MR. FRYMAN: I'll ask the reporter to mark as McMahon Deposition Exhibit 20 for identification, a document dated October 14, 1985 which is composed of pages 20014 through 20025 of the materials produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 20 identified.)

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BY MR. FRYMAN:

Q If you would look as Exhibit 20, Mr. McMahon, have you seen that document or that type of document before?

A No.

Q Were you aware that extensive outlines or "to do" lists were prepared on a periodic basis within the Channell organization?

A No. I had heard reference to Dan's "to do" lists but I didn't know what they were or ever see them.

Q When you say "Dan's 'to do' lists" what do you mean by that?

A Mr. Conrad, you know, if like he and I had a discussion he might say: Well, I'll put it on my "to do" list. I didn't think much of it.

Q But the "to do" lists were not circulated to you or the outlines?

A Oh, no. Oh, no.

Q Would you look at this exhibit and the handwriting and tell me if you can identify the handwriting on this exhibit?

A It appears to be Mr. Conrad's.

MR. FRYMAN: I ask the reporter to mark as McMahon

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Deposition Exhibit 21 for identification, pages 15572 through 15574 produced by counsel for the Channell organizations.

(McMahon Deposition Exhibit 21 identified.)

BY MR. FRYMAN:

Q Would you examine Exhibit 21 for identification, Mr. McMahon, and tell me if you recognize those pages?

A Yes. It looks like the logbook that Angela keeps of the checks that come in.

Q Do you believe that those entries were made by Angela Davis?

A Yes. I think they are.

MR. FRYMAN: Mr. McMahon, I have no further questions at this time. I believe, however, that the document production by the Channell organization is not yet complete.

MS. LUBIN: That's correct.

MR. FRYMAN: I want to reserve the right to raise further questions that might relate to further documents to be produced so I have no further questions at this time. But I say that with the reservation that I may have further questions after I look at the further documents.

THE WITNESS: I understand.

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MS. LUBIN: Are we to assume that further questions relate only to further documents?

MR. KAPLAN: Not on my part.

As everyone here knows we had approximately 20-, 25,000 pages worth of documents produced on Wednesday or Thursday. In fact I think we are all too familiar with that. So, to the extent that I reserve a right for further questioning at the end of my questioning today, I don't want to limit myself just to documents that haven't been produced prior to this time.

MS. LUBIN: How about informally, do you mostly think you have covered most of what you have?

MR. KAPLAN: I will attempt to do so.

EXAMINATION

BY MR. KAPLAN:

Q Mr. McMahon, as you know my name is Jamie Kaplan, I'm an associate counsel with the Senate Select Committee that is investigating the Iran and Contra affair. I will ask you a few questions and will try not to duplicate what Mr. Fryman has asked you already this afternoon, although I certainly may touch on some areas that Mr. Fryman has covered.

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If you have any questions that I ask you, that you don't understand, please feel free to stop me and ask me to be a bit more clear.

A Okay.

(Discussion off the record.)

BY MR. KAPLAN:

Q Mr. McMahon, I'm going to take you back to a document that has been marked as McMahon Exhibit 4; which I believe is a listing entitled "NEPL 1986 Contributors."

A Okay. Got it.

Q It covers the particular time that looks to run from January of '86 --

A Through August.

Q Through August, I guess. Although they are not all in their right order.

Can you tell me what the CAFP project was?

A The initials there stand for ~~the~~ "Central America Freedom Program."

Q Do you have any idea what that project is?

A To my understanding it was humanitarian efforts for the Nicaraguan -- Contra fighters there.

Q Working down a little ways on the page, can you

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tell me what the "food" project was?

A That was, from what I understand, they were raising money to try and buy and purchase food for the fighters in the gap before the money from Congress got to them to help them.

Q A little further down the page, what about REF Omaha TV?

A That was a refund from the Robert Goodman Agency for a time buy that we had placed in Omaha.

Q Two down there there, can you tell me what the "radio project" was?

A That was the project that Western Goals embarked on.

Q And, can you tell me moving down the page, what Nic 1 was? What was that project?

A I don't know any further distinction from that as opposed to CAFP. Generally speaking Nic 1 is what it was called if it was deposited in special account 1.

Q So your general understanding is that CAFP and Nic 1 stood for the same project?

A Basically, yes.

Q Let's work to page 2 of McMahon Exhibit 1 --

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MS. LUBIN: Number 4?

MR. KAPLAN: I'm sorry. Number 4.

BY MR. KAPLAN:

Q The second from the bottom under the project heading says "SDI." Do you know what the SDI project was?

A That stands for ~~the~~ "Strategic Defense Initiative."

Q What did that project entail?

A I believe that they were hoping to raise monies to educate the public through the media on what SDI was.

Q So I take it you had an understanding as to what each of these projects that we just went through stood for and what activities fell under the rubric of each project title?

A Only ~~Very~~ generally, yes.

Q Yet you testified a little earlier today that you didn't have any understanding as to what the "Toys" project was?

A I don't. And I don't know exactly how the food project, either, ended up getting into the Nicaraguan people. I just don't know.

Q I'm not talking about how the food project made

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its way to Nicaragua. But you just described for me a moment ago that the food project was designed to provide food for the Nicaraguan rebels; is that correct?

A Yes.

Q And you also told me, similarly, what the CAFP project was -- money for that project was to be used for?

A I said that was Central America Freedom Program.

Q Right.

A What that encompasses, I'm not real sure of.

Q But you gave us a bit of an explanation and the same for radio, the same for SDI; is that correct?

A Yes.

Q And your testimony earlier today is that you could not even come up with the same general explanation of what the "Toys" project stood for?

A No. And I still can't.

Q Okay. You testified earlier today that you didn't want to know, in December 1986, why you were instructed to change the designation of the "Toys" project; is that correct?

A Right.

Q Did you think you were doing something wrong?

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A It occurred to me.

Q Why did that occur to you?

A Well, I didn't see any -- I didn't know of any reason to need to change "Toys" to CAFP.

Q If you thought you were doing something wrong, why wouldn't you have wanted to know that you were doing something wrong?

A I just didn't.

Q If someone asked you to go steal a car on the street would you ask why?

MS. LUBIN: I'm going to object. I'm going to object to that, Jamie.

BY MR. KAPLAN:

Q Would you please answer the question. The objection has been noted.

A What was the question, again?

Q If someone asked you to steal an automobile, would you ask why?

A No, I'd probably tell them no.

Q If someone asked you to engage in an obstruction of justice, would you ask why?

A If I knew that's what was going on, probably yes.

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Q And if you had an intuition as to what was going on, or that something wrong -- to use your language -- was going on, would you generally ask why? Or for what purpose?

A I don't know. I suppose I would.

Q But your testimony is that in this instance you didn't?

A No.

Q And can you tell us why you didn't?

A I said before, I didn't want to know.

Q You testified a little earlier that the "Toys" designation prompted the thought of guns and ammunition; is that correct?

A Yes.

Q Why did the phrase "Toys" prompt, in your mind, the image of guns and ammunition?

A Because my image of Nicaragua at the time was that there was a war going on there.

Q How did you know that the "Toys" project related to any of the activities conducted by NEPL relating to Nicaragua?

A As I said before that's only my assumption, my curiosity. I don't have any basis for it, except it was originally called Nic #2 and ultimately called CAFP.

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MS. LUBIN: That it related to Nicaragua?

THE WITNESS: No, that it related to guns and weapons.

BY MR. KAPLAN:

Q But why did you even assume that the "Toys" project related to Nicaragua at all?

A Why do you all question me as to what "Toys" is? You are under the same assumption. That's -- I mean that would seem clear to me.

Q We have had the benefit --

MS. LUBIN: They get to ask the questions.

THE WITNESS: I'm sorry. My curiosity --

BY MR. KAPLAN:

Q I'll answer this. My curiosity is piqued by press media reports over the course of the last four months.

Your curiosity arose at sometime prior to any of the media reports about the affair that we are in the process of investigating. And I'm asking you: Why did you even suspect that the "Toys" project was related to efforts on behalf of the Nicaraguan rebels?

A Drawing on what you have just said, when you first read about "Toys" in the newspaper, along with many other people, their assumption jumped and their imagination jumped to what Toys might be, i.e. weapons, ammunition, et cetera. My curiosity did the same thing to me back then when the Toys terminology first came about.

Q When someone says "toys" to me, I don't think about guns and ammunition.

A Do you think about spending millions on toys? I don't.

Q So then I take it that your testimony is that the reason why "Toys" prompted the image of guns and ammunitions purchase in your mind is because of the amount of money that was being spent on that project?

A As well as that there was a war going on in Nicaragua.

Q Okay. So it was both the amount of money that was being spent on the project, and the fact that there was a war going on in Nicaragua, that led you to imagine that the Toys project was a designation for guns and ammunition?

A Yes, sir.

Q Didn't Kris Littledale show you a magazine in which guns and ammunition were featured and tell you that the Toys project was raising funds for that purpose?

A I don't recall that.

Q Did you see anything around the office that would have led you to believe that the Toys project was raising funds for guns and ammunition?

A No, I didn't.

Q With respect to the Shank, Irwin & Conant checks that Mr. Fryman showed you a little earlier, I believe that they have been marked McMahon Exhibits 16 and 17, was there ever a note that evidenced the so-called repayment check that constitutes Exhibit 16?

MS. LUBIN: A note that evidenced the repayment?

THE WITNESS: I don't know what you mean.

BY MR. KAPLAN:

Q Was there ever a note that existed that required the repayment that is evidenced by Exhibit 16?

A I recall something like that. I haven't looked at it in a long time but I do recall something along those lines.

Q Along what lines?

A That we owed this money back to them. I can't tell you for sure.

Q Isn't it true that under generally accepted accounting principles, that a note would be required in order for you to reflect it as a repayment such as is reflected on McMahon Deposition Exhibit 8?

A You would hope to have a note to support it, yes. But even if you didn't, you would show your liability if you knew it to exist.

Q Would you show your liability under the rubric of "note" or "repayment of note"?

A Yes. It would be a liability of the company which offsets its fund balance, and it wouldn't be a part of your operations as such.

Q And that would be consistent with generally accepted accounting principles?

A I would say so.

Q Are you aware of the retention by NEPL of a company to sweep the telephones of a Barbara Newington in Greenwich, Connecticut, in an effort to check for electronic recording devices?

A Yes, sir.

Q What can you tell me about that retention and sweeping activity?

A We got an invoice in from a company called

Interpass and I asked what it was for? They, I think Cliff or Dan, told me that they went up to Barbara Newington's home and checked it for surveillance devices.

Q Did they tell you why they checked it for surveillance devices?

A No, sir.

Q Did you ask?

A No.

Q Did you think you were doing something wrong?

A No.

Q You described a little earlier today how deposits of NEPL income were designated and made to the various bank accounts. Were all deposits into NEPL bank accounts attributable to private contributions?

A To my knowledge they were. We had a couple, a handful that would have been from a corporat~~e~~ion or foundation, but it was generally solicited through an individual.

Q Are you aware of any deposits that were not attributable to contributions?

A No. I'm not sure I know what you mean.

Q Were there any deposits made into any of those accounts that came from a source other than a contributor to

NEPL?

A No.

Q Did you ever see a deposit on a monthly statement or otherwise that you didn't recognize as having been made either by you or one of your assistants?

A No. That is what I meant by the year end to reconcile it. And all of those are on the financials.

Q I take it you paid close attention to the monthly statements from financial institutions?

A Yes. I had to.

Q Do you pride yourself on having your books check out?

A Yes.

Q Was there ever a time when you were under the employ or retention of NEPL in which your books didn't check out?

A No.

Q Did anyone ever write checks from any NEPL financial institution, or make wire transfers, other than you or any of your assistants?

A Yes. Dan or Cliff or Mr. Channell would. In the very early stages Roger may have been instructed to write something out.

Q Did Mr. Channell also write checks out of those accounts?

A Yes.

Q How would you account for those checks by way of check ledger? Let me back up a minute.

Did you compile and maintain a check ledger with respect to the various financial accounts?

A Yes. They would be listed in check number sequence.

Q Right.

A If I -- if one were missing, that would be an immediate flag: What is this? But I don't -- that situation hasn't occurred.

Q If a variety of people were writing checks out of a variety of accounts, how would you stay on top of the check ledger to make sure that each check was recorded and the purpose of each check was written down and so on?

A That was difficult. But each month we were to -- I would do the bank reconciliations and account for all the checks that came -- you know, that came back in the bank statement. Basically do a bank reconciliation like any of us would do on our own accounts. And account for every penny that went in or out of those things.

Sometimes the descriptions of what went out were, you know, not very descriptive.

Q What would you do if you got a description that you didn't feel was adequate for your purposes?

A I would try to go back and ask the person who wrote the check if they remembered what it was for. If that wasn't helpful enough, I'd try to get an explanation from Dan or Spitz. Sometimes I still didn't get a real clear understanding what it was for and, like IBC, for example, I don't really know what that money went for and it got tracked as IBC.

That's something that at year end we have to go back and try to evaluate.

Q Did most checks get mailed when they were paid?

A Some got mailed. Some were hand-carried. Some went out Federal Express.

Q What checks were hand-carried that you recall?

A Sometimes the ones to IBC would be hand-carried. Sometimes the consulting fee to Mr. Kuykendall might get hand-carried if Spitz or Dan were going to have a meeting

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with him that day; they may take the check along with them.

Q Was there ever an urgency as to a check that was issued, either to IBC or to Intel Cooperation or IC Inc.?

A There always seemed to be.

Q There was always an urgency with respect to those checks?

A Yes.

Q How would that urgency be expressed to you?

A "Need a check immediately." That was like the language.

Q What would you do? You described a bit earlier that if you didn't have money in a given account to cover a check requested to IBC, that you then transferred money from accounts to get into the account from which you were writing the check.

A Right.

Q Is that correct?

A Yes.

Q How would you get a check immediately if you had an account that just simply wasn't going to cover that check?

A Well, we were on a first-name basis with the people at Palmer National. If we needed to do a wire

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transfer, we'd call them up and they would do one for us immediately.

It was between internal accounts of NEPL there at their bank, so for them I guess it was a paper entry.

Q So wire transfers could be handled by telephone?

A Yes. Yes. And ~~you~~ probably -- internally between the NEPL accounts, the bank doesn't even call them wire transfers because they are not to somebody on the external outside world. They were within that same organization.

Q Do you recall a check that was written to IBC in May 1986 for $1.25 million?

A Yes.

Q Can you tell me what you recall about that check?

A That was rather large, but then again the contributions that had come in at that time frame were also relatively large as well. That's about it.

Q Did anyone explain to you why the contributions that had come in around that time frame were relatively large?

A No.

Q Did anyone explain to you why a check for $1.25 million was needed?

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A No.

Q Was the need for the $1.25 million check to IBC expressed with some urgency?

A I don't know. I wasn't the one who did it.

Q Why didn't you do that check?

A Because I was working at my office at home at that period in time. There was no place to work over --

Q Did someone call you and ask you about that check? Or notify about that check?

A Not as part of that transaction that day. I don't recall that. I learned of it, I think, after the fact -- wow, that's a lot of money. (Gesturing.)

I do -- I should back up. Because on that check I do remember that once I found out that Phil had done the check out, there wasn't adequate monies in that account he wrote it on, and it was kind of crazy getting the monies into that right account. I can remember being a little bit teed off at him for having written it. Casually saying, oh, we wrote a check for $1.2 million.

On what account? There's not that much money in any one of those accounts.

I do remember that part of it.

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Q What did you do to rectify that problem?

A We had to do the transfers to get the money in the right place to cover it.

Q And the transfers came from which other accounts, do you recall?

A Offhand, no. It would have been whatever had the money in at the time. Offhand I don't know.

Q Would the transfer have come from a number of other accounts?

A It could have. Special 1, I think, had been active around that time; the Hutton accounts had also been active.

Q Did you ever have any contact with a Richard Miller during your time at NEPL?

A No. I've seen him.

Q You never talked to him?

A Just to say hello.

Q What about Frank Gomez? Did you ever have any contact with Mr. Gomez?

A I don't know who he is.

Q What about David Fischer? Did you ever have any contact with David Fischer?

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A I never met him.

Q Were you ever aware of a telephone conversation that Mr. Channell had with President Reagan?

A I heard that he had talked to the president on the telephone.

Q Do you recall when that occurred?

A No.

Q Who told you?

A I think it was the general buzz in the office, because it was something that doesn't happen to everybody all the time.

Q How long was he on the phone with the president?

A Oh, I don't know. I have no idea.

Q Do you recall any other phone conversations that Mr. Channell might have had with the president?

A No. I remembered that -- that one, around that time, whatever -- oh, Spitz got a call from the president. That's all I know on that.

Q Did you ever know Fawn Hall?

A Never met her.

Q Was her name familiar to you?

A NO.

MR. KAPLAN: I have no further questions. Thank

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you. You have been very cooperative.

Mr. Buck may have a few questions. As I stated earlier, I, too, reserve the right to recall you to ask questions relating to documents, either that our weary eyes haven't quite yet been able to consume or that will be produced by your counsel in the very near future.

THE WITNESS: I would just like to ask or state, if you all could wait until after April 15th, I would appreciate it a great deal.

MR. KAPLAN: Okay, I understand. Today is the 13th. I think we are all going to go home and --

THE WITNESS: I think I'll be up all night for the next couple of days.

MR. KAPLAN: I appreciate your cooperation in coming in during this period.

THE WITNESS: Thank you.

MR. KAPLAN: It was a request -- and a demand -- that worked out with your counsel made on my behalf. I realize the difficult season for you as an accountant, and that's the other reason why I appreciate your showing up here tonight.

MR. BUCK: Could we go off the record.

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(Discussion off the record.)

MR. KAPLAN: I'm going to go back on the record. I have two further questions provided to me by Mr. Zanardi.

BY MR. KAPLAN:

Q What was the reason for sending funds directly to IC Inc., rather than sending them to IBC, if you know?

A I don't know.

Q Did you ever ask why a check went to IBC as opposed to IC, Inc., or vice versa?

A I might have, and I think the only answer I got was that we were instructed by IBC to make it out to the Intel Co-op.

Q I see. Do you ever recall making out checks, either to Palmer National Bank or to cash, in any substantial amount, say more than $500?

A Yes.

Q Let's talk about Palmer National Bank, first.

Why would you have made out any checks to Palmer National Bank?

A Well, some get paid out to Palmer National Bank for the federal withholding deposits. They are generally substantial.

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The others, we should probably have other ones in there for Palmer National, because we have a loan for our office furniture. That would probably be it to Palmer National.

There was an occasion, I think, they bought some travelers checks. Maybe they went to Palmer National. I'm not sure of that.

Q Do you recall the amount of travelers checks that were purchased?

A It was $10,000, maybe $12,000. Somewhere in that ballpark.

Q What was the purpose of those travelers check?

A They, ~~were~~ Spitz and Dan and all the fundraisers were traveling to Europe, I believe Germany, in the initial efforts of the Torch project that they are working on now.

Q When would that traveler check purchase have been made? Was it in November of '86?

A I would say late October, early November. Probably sometime before Thanksgiving, early November. Somewhere around there.

Q Were checks ever made out to Palmer National Bank in order to derive cash from the check?

A No. If they wanted cash it was generally made out to cash.

Q Do you recall making out any checks to cash in amounts of more than $500?

A Yes. When they would do traveling, travel advances would get made out for cash and sometimes they could be more than that. If a group of them was going, generally Dan would get the cash and he would distribute it to the various people as necessary on the trip.

Like, okay, here's your $25 for dinner tonight. That's how they handled it. Not the best approach, but that's how they did it.

Q What was the largest cash check you recall making out?

A I was going to say $10,000 maybe. I don't think it was over that.

Q Was that check in connection with travel?

A With travel, yes.

MR. KAPLAN: Now I really don't have any more questions for the time being. And I'll turn the floor over to Mr. Buck.

EXAMINATION

BY MR. BUCK:

Q Mr. McMahon, my name is Ken Buck, I'm assistant minority counsel with the House Committee. First let me thank you for showing up today and spending your time with us.

I want to go back to a part of the early -- early part of the deposition in which you said that you were told to change the name of the "Toys" account because it didn't clearly reflect the project? Is that a fair summary of what you said?

A Yes.

Q And the name was changed to "TV ads"?

A CAFP TV, or "TV ads." Becky and I were both working on the file. It's a huge file. Both of us were working on putting those changes in.

Q My question is, does "TV ads" or "CAFP TV ads" more clearly reflect what that project was?

A I don't -- I can't answer that. The detail wouldn't necessarily tell me that.

TV in there right now helps me to identify what used to be "Toys." But I don't know if that's a good terminology for what that was. Probably should just say CAFP, I guess.

Q What I don't understand is whether the project itself changed along with the name, or whether there was just a name change and the basic project continued as it was before?

A I would say it was just a name change.

Q So Toys led you to think of guns and ammunition before; but TV doesn't lead you to think of guns and ammunition any more?

A Right.

Q But the project remained the same?

A Yes. Whatever the money was raised and spent on remained the same.

Q Who determines project names?

A I don't really know. I think Spitz.

Q Has Spitz told you any project names directly?

A Well, the discussion that went on when Toys came up -- but I don't know that it was him that said that. I think Kris did.

Q Any other projects?

A Food, SDI I think was his terminology.

Q Spitz told you directly that this project should be called SDI?

A Yes. And we set up another bank account for SDI.

Q Mr. McMahon, are you familiar with 501(c)(3) corporations?

A Yes.

Q How many 501(c)(3) corporations are set up with the Channell organizations?

A Two, three.

Q Could you name them, please?

A National Endowment --

Q That would be NEPL?

A NEPL, Western Goals Foundation, and the American Conservative Foundation.

Q Okay. Would you describe -- has money that has gone into the NEPL foundation ever been used to sponsor television advertising?

A Yes.

Q Has it ever been used to sponsor partisan television advertising? That is, television advertising involved in an election campaign?

A I don't think I have an answer for that for you

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because I'm -- I don't -- I don't know the true nature of all of those ads.

Q Okay. It has been used to pay the Robert Goodman Advertising Agency?

A Yes, sir. And to my knowledge, Mr. Channell made a great deal of effort to have attorneys help him in deciding what kind and nature of these ads were and which organization should sponsor them and pay for them. And made every effort to see to it that that appropriate company did pay for them.

Q Were all the Robert Goodman Advertising Agency ads paid for by 501(c)(3) corporation?

A No.

Q Some were paid for by another corporation?

A Yes.

Q Could you tell me what other corporation?

A Some of them were paid for by Sentinel, which is a 501(c)(4). Some of them were paid for by a political action committee.

Q Would you help me now, which ones were paid for by a political action committee and which ones were paid for, if you know, by a 501(c)(3). Or do you know why they were paid for separately?

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A They were, to my knowledge, they were paid for separately because the nature of the ad belonged with that type of organization. I.e., like a nonprofit can't run ads that would be political. So that's, to my knowledge, that's how they are broken down.

Q So you ran nonpolitical television advertising also?

A Yes.

Q And you ran political television advertising?

A Yes.

MR. BUCK: I'm going to ask the court reporter to mark this as McMahon Deposition Exhibit 22.

(McMahon Deposition Exhibit 22 identified.)

THE WITNESS: Boy, that one has gotten around.

BY MR. BUCK:

Q Mr. McMahon, I'm going to ask you to look at McMahon Deposition Exhibit 22. Can you identify what it is?

A Yes. It's a list of top 25 contributors for the National Endowment. It is dated April 3, '86.

Q Did you prepare this?

A Yes.

Q One more question. Do you know of any instances

A There were also transfers to pay for administrative expenses like the rent – where the lease might be in the name of one company, but the ~~[illegible]~~ understanding was the other companies would share in those expenses.

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in which 501(c)(3) corporation, the three corporations that you mentioned, made campaign contributions or paid for political -- what we distinguished as political television advertising?

A Not to my knowledge.

MR. BUCK: Thank you very much, Mr. McMahon.

(Discussion off the record.)

BY MR. BUCK:

Q Mr. McMahon, I'm the cleanup hitter here.

You mentioned that there were transfers between NEPL accounts.

A Yes, sir.

Q Were there transfers between different NEPL organizations -- different Channell organizations, such as NEPL and Sentinel?

A Yes. From time to time we had transfers between NEPL and Western Goals, which was another nonprofit. There was a transfer from NEPL into Sentinel, when Mrs. Newington gave stock to NEPL and she intended it to be for Sentinel, so we had to put that money over there. A

I think I transferred money from NEPL to a PAC early in '85, to pay some -- there was a very small payroll

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tax, $700 or something -- I didn't know that NEPL couldn't do that, and I did it. I now know I shouldn't have but I did it anyway.

But other than that, no. We didn't generally just transfer money back and forth across the board. There was generally a specific reason why.

Q So it's fair to say that you were careful in not transferring money from a nonprofit organization to a political action committee --

A Yes. Yes. (so profit)

Q -- or a "for ~~property~~ profit" organization?

A Yes.

Q And who gave you the instructions that made you careful in that regard? Or did anybody give you those instructions?

A Spitz was adamant about that.

Q Directly to you?

A Yes. Yes. And there were times, in fact, if we wrote checks out on the wrong company, he would void them and send them back and say, no. This is a NEPL bill. Or this is a Sentinel bill.

He was very careful in looking at that.

MR. BUCK: I don't think I have any more

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questions, Mr. McMahon. Thank you very much for your time.

MR. FRYMAN: I have no further questions at this time. We'll adjourn the deposition. In case there's any ambiguity in my earlier statement, I am reserving the right to question further on the same basis as Mr. Kaplan.

MS. LUBIN: I'll reserve any questions on my behalf.

(Whereupon, at 5:50 p.m., the deposition was adjourned.)

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CERTIFICATE OF NOTARY PUBLIC & REPORTER

I, JOEL BREITNER, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Notary Public in and for the
District of Columbia

My Commission Expires 8/14/90

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HSITS 10.5/87

DEPOSITION OF FRANK MC NEIL

Wednesday, June 24, 1987

U.S. House of Representatives,
Select Committee to Investigate Covert
Arms Transactions with Iran,
Washington, D.C.

The committee met, pursuant to call, at 10:10 a.m., in Room H-128, the Capitol, Timothy E. Traylor (Investigator, House Select Committee) presiding.

Present:

On behalf of the House Select Committee: Timothy E. Traylor, Investigator.

On behalf of the Senate Select Committee: Terry Smiljanich, Associate Counsel.

Partially Declassified/Released on 12-30-87
under provisions of E.O. 12356
by N. Menan, National Security Council

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Whereupon,

FRANK MC NEIL,

was called as a witness by the House Select Committee and, having been duly sworn, was examined and testified as follows:

EXAMINATION BY COUNSEL FOR THE HOUSE SELECT COMMITTEE

BY MR. TRAYLOR:

Q Mr. McNeil, my name is Tim Traylor. I am with the House Select Committee, and at my side is Terry Smiljanich. As you know, he is with the Senate Committee.

Could you state your name for the record, please?

A Francis Mc Neil.

Q And your current employment?

A I am retired.

Q The mandate of both the House and the Senate Committees, which have just recently concluded the first phase of the joint hearings to investigate the circumstances surrounding primarily the Iran affair, but also the United States Government involvement with the contras, this investigation is being conducted pursuant to resolutions and various enacting rules under which both committees were established, and if you want copies of either for any reason, we will certainly be glad to provide them to you.

Just let me ask you at the outset to tell us a little bit about your background if you could.

A All right. Beginning with the Foreign Service, military?

Q If you could start with providing your schooling.

A I graduated from the University of Florida in 1954 in Gainesville, Florida in political sciences; I went into the Army for two years, and when I came out of the Army, I had already passed the Foreign Service exam, and I started within a month into the Foreign Service in September, 1956.

I was sent to FSI to study Spanish and then sent to Tokyo.

Q Sounds like something the Bureau would do.

A Where I spent three years as a consular officer, returned to Washington in 1961 and in 1959, late 1959, served for two years as the junior adviser on our delegation to the Organization of American States.

Then I went to Guatemala as a political officer in the embassy in Guatemala for three years, returned to Japan in 1964 to study Japanese for two years at the Foreign Service Institute's Yokohama Japanese Language and Area Studies Center.

I then served in the embassy for a year as political officer and then went to Nagoya as principal officer in the American Consultate in Nagoya. I returned to the embassy in '67 to serve three years as Chief of the

Internal Branch of the Political Section of the American Embassy in Tokyo.

I then went to Stanford for a year on a sabbatical at the Institute of Political Studies at the Hoover Institution.

From thence we went to Washington where I served as Alternate Representative and then as Acting Deputy Representative of the United States before the Organization of American States. I left that post in 1975 to go to Madrid as Political Consular of the American Embassy in Spain.

I returned to Washington in 1977 as Deputy Assistant Secretary for Inter-American Affairs covering South America. I served in that position for a year, and then in late 1978 became an inspector, senior inspector running inspections of missions abroad, which I did for about a year-and-a-half except that it was interrupted by several months' service as Deputy Assistant Secretary for East Asian Affairs under Richard Holbrook, what we called the rent-a-deputy program. He borrowed me on an airplane because he had run out of deputies.

From then -- after one more inspection in the Far East I went, I was nominated by President Carter to be Ambassador to Costa Rica. I received confirmation from the Senate in late June, as I recall, of 1980 and arrived in

Costa Rica in 1980, in July, I think it was July 5, 1980. I left Costa Rica after three years as Ambassador on July 3, 1983.

I then went to -- after doing some public diplomacy appearances trying to explain Central America and Peru to Europeans, six countries in Europe, I began a year -- nine months really -- as Ambassador in residence teaching and writing, teaching a little bit, writing at the Fletcher School of Law and Diplomacy in Boston, and that service, that sabbatical was interrupted by service as the President's Special Emissary to the leaders of the Caribbean States in the Grenada mission. I went down to Grenada and -- I went down to Barbados on a very urgent call from Washington. I was asked to come down and bring my tropicals, and I brought my tropicals, and I was told that I should go down and talk to the leaders of the Caribbean States on behalf of the President to assess their request for American intervention and to assess the security situation of the students.

I took General George Crist of the American Corps with me on a special mission airplane. After lengthy discussion with the leaders of the Caribbean States, who had made the request, and assessed considerable time spent assessing the situation of the students on the Island, I recommended we send in the troops.

Subsequently, I was asked by Lawrence Eagleburger if I would become Senior Deputy Assistant Secretary in the Bureau of Intelligence and Research, and I accepted that post and began work in June of 1984, and which job I held until February 3, 1987, when I retired on a point of principle.

Q I must say a very impressive Foreign Service career.

A Well, it was fun anyway. All but some of the most recent parts.

Q I would like to start the interview today by asking you some questions about your knowledge of the Iran arms initiative. The first area that I want to discuss is your, what indication, if any, that you had that certain segments of the administration wanted to develop a new policy toward Iran.

A Well, at the time certain segments seemed to be, Graham Fuller and the Director of Central Intelligence, because the memo -- I have a terrible memory for dates and do not have documents.

Q May, 1985, I think.

A That is right.

When that memo was given to us, we thought it was kind of crazy. That is the Bureau of Intelligence and Research, that it postulated a larger Soviet threat than existed and that the notion that there was anything we could reach out to in Khomeini-era Iran was not -- didn't

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seem tenable.

I guess we didn't have the wit to say it, but Art Buckwald's phrase applies, we thought in retrospect that an Iranian moderate was an Iranian who had run out of ammunition.

No one argued the importance of Iran, but it just seemed to us, and it seemed, as I understood it, to most people in the Central Intelligence Agency, and certainly to the Bureau of Near Eastern and South Asian Affairs in the Department of State that you couldn't talk about doing anything in Iran as long as Khomeini was so firmly in saddle, nor did we believe the rumors of Khomeini's impending death nor that the, that Iran was about to fall apart.

Q I see.

A I would say that that was a fairly consensual view within the Intelligence Committee except, of course, that the DCI I think shared Mr. Fuller's views, and obviously that document we now know or now surmise played a role in the development of this so-called initiative.

rg-end

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Q You stated, and I wanted to ask you about this, about the DCI -- he shared Fuller's views. Why do you think he agreed with the memo?

A Bcause of two things:

One, because, as I understood, he subsequently understood, he pushed it forward to the President in some fashion.

And secondly, because at the same time we were hearing stories -- this sort of, it is not on the street, it is in the corridors, as it were, that the Central Intelligence Agency was very concerned, understandably concerned, by the former station chief, the late William Buckley's situation, and were looking for some way to get a handle on the Iranians in order to get them to exercise their influence over the Hizballah, who were presumably holding Buckley, by the intelligence we had at the time.

Q You say this was corridor gossip. Is there anyone that you could take this back to at the agency -- the rumor?

A I mean, the concern in the agency was very real. It was expressed to me, when Hugh Montgomery -- it was Mort Bramowitz, who was Assistant Director, and now Assistant Secretary of the Bureau of Intelligence and Research, attended the weekly lunches when they were not in town, or otherwise unavailable, so I knew of Mr. Casey's concern about Mr. Buckley.

I know Clair George was concerned. In fact we were all concerned. We had a American official in the hands of these people who seem to have later killed him.

I recall talking about it to Bob Oakley on one occasion, but I don't recall that -- we were expressing some concern to each other about the fact that perhaps the agency might be willing to break the no-deal policy on hostages for Mr. Buckley. Please note that I did not say the no-negotiations policy, because that I think is a popular misunderstanding. We obviously tried to negotiate with people who are in cockpits to get them to release people, but what you don't do is you don't make concessions, you don't pay ransom for hostages.

Q Aside from yourself and I&R, who else at the State Department, as you know it, was involved in the review of this memo?

A Well, the Secretary saw it and I think -- this is recollection, it may fail me -- I think we probably did an exegesis on the memo for the Secretary, saying we didn't agree with it. We thought it was overstated for all the reasons I have expressed to you. And I know those views were shared by the people in the Bureau of Near Eastern and South Asian Affairs, who saw it, which would not have been a large number.

It was a fairly restricted memo but our senior experts, for example, looked at it and I am sure, you know, the appropriate senior officers of the Bureau of Near Eastern and South Asian Affairs would have also done what we call the NEA, if I may use the acronym.

Q Can you briefly explain to me why the memo like the Fuller memo would be sent to the State Department?

A Well, we are part of the intelligence community and it was purported to be an intelligence analysis.

We also,frankly, took exeption to it, because it was a policy paper in our view. It was an -- intelligence community doctrine requires that intelligence agencies not make policy recommendations. Now, clearly, if you analyze rainfall in the Gobi Desert, that is of no use to policy-makers. So if what you do is of any good to them, it will be policy relevant and conclusions may be drawn from that memo that may lead people to change their minds about policy. It is a fine line to walk, but it seemed to us that Graham had gone way over the line in sort of frankly, urging a policy change, and of course, it seemed to us as well that his analysis was exaggerated.

Q Now, were you also familiar with the June 1985 NSDD that I believe came out of the NSC?

A I am not sure that I was. I may have been, but I don't recall this removed. I really don't. Which one was that? Was that the one drafted by State or --

Q I think it was drafted by NSC and that --

A Because there were two. I know that now from looking at the Tower Commission Report.

Q The State Department and the Secretary opposed it.

A I probably heard something about it, but I may not have seen it. Mort Abramowitz may have seen it. In the course of these kinds of sensitive discussions on various parts of the world, if you didn't see something in my position, I normally heard about it on NSDDs. It was the practice of the Near Eastern Bureau, I think generally, to at least bring in our intelligence, senior intelligence people like George Harris, our Director of Near Eastern Analysis and ask him sort of informally what he thought about the analytic lines in it.

But I honestly don't remember whether I saw that particular piece of paper or not.

Q Were you familiar --

A I remember that --

Q Were you --

A The Fuller memo produced considerable argument and there was an effort to make sure that -- there was an effort in State to make sure that this, what we thought was erroneous analysis, did not become policy.

Q Mr. McNeil, were you aware of any arms transfers, that is, of course contemporaneous knowledge at the time?

A In 1985, yes.

Q And can you describe that in detail as to how you obtained that knowledge and exactly what you knew?

A Well, to the best of my ability, because there is still some confusion, I have talked to one of my colleagues the other day, we still have some discrepancy on whether it was the September or the November shipment or both, that we knew about.

My recollection is that I learned about the September shipment, and I think I probably learned about it from Bob Oakley, and Mort Abramowitz may have been out of the country. The story I was told at the time was the one that is in the Tower Commission Report according to North, which is that he bumped into a plane [redacted] In hindsight that may have been a cover story. Bumped into an Israeli plane.

But there was discussion in that fall period of '85 about this on a very restricted basis. I did not personally participate in any discussions of it with the Secretary, but I did, as I recall, discuss the horrifying potential of it not only with Oakley but with Mike Armacost, and, of course, Mort Abramowitz, who became aware at the same time I did or shortly thereafter, or shortly beforehand, as I say.

And I actually -- it is an aside -- but I think that there were probably not a large number of people, but maybe as many as ten or fifteen people in the Department of State, who must have known about this flight, because some of our analysts stumbled on I believe the November flight -- two of our analysts -- [redacted]

Q Who were they, the analysts? Do you recall their names?

A Probably Wayne White, and maybe Steve Grumman, who no longer works for us, but works for the NSCT, the old Oakley and now Bremmer office.

You know, we got [redacted] and we started peaking around and suddenly a veil was dropped over the intelligence [redacted] told us to not -- that they were not going to give us any more on this.

Q When did that occur?

A I think in the fall of 1985. Another deputy assistant secretary in the department, Richard, Dick Clark, probably has a better memory of the timing and certainly Wayne White, who was the analyst who first looked at this, would have a better memory of the precise timing, [redacted]

Q We have [redacted]

A But I just don't remember the time of it. It smelled.

Q When this occurred, I mean, this was unusual [redacted] literally cut you out of --

A [redacted] I better be careful. It could have been the CIA cut us out of further information [redacted]

MR. SMILJANICH: That is true. That is all right.

THE WITNESS: I think [redacted] but Dick Clark has a better memory and White will have the best memory on this. I just remember the incident.

BY MR. TRAYLOR:

Q What I am driving at is what did you do when suddenly you were cut out of this intelligence?

[redacted]

Q Is that the first time anything like this had happened?

A Well, you never know what you don't know.

Q Well, let me ask you this way --

A In retrospect, given the behavior in this whole affair, it is not clear to me that some other things were not withheld from us on other occasions.

Q Who cut you out, as you understand?

A Was it the White House? No, I don't know.

Who instructed? [redacted]

[redacted]

There is another part of this story where I did but not on this aspect.

At that time, and I think it is well to sort of understand that clearly the Secretary knew about this and I was aware that he was opposed to it, although I did not speak to him directly. There may have been a meeting in which asides were passed from those of us who knew what we were talking about, about concerning North's adherence to terrorism policy or something like that.

I think there was at one of the weekly -- the almost daily security meetings that the Secretary chaired dealing with embassy security and terrorism in general, I think there may have seen some asides at that. Most of the people in the room were not privy to the existence of this flight, which I think was the September flight. It is the one I think I remember.

But we were told -- Oakley told me, and I think, and Mort had heard also, from Armacost, I presume, that it had been turned off, this, you know, in the late fall, that the President had decided that -- I say late fall. If one looks at the Tower Commission Report, it would look like an early December time frame when this, what people thought was a tentative decision to turn it off took place as McFarlane was leaving.

But that was the extent of the knowledge that we had, that we had protested, that the President decided not to do this sort of thing again, and that was where that knowledge of a flight stops as far as I am concerned.

Q Let me back up. I believe you said you learned it from Oakley or possibly Abramowitz?

A I think I learned it from Bob first.

Q Is the flight what he told you about?

A Yes. The [redacted] story.

Q What did he tell you exactly?

A That Ollie had apparently okayed -- this is all vague.

Q Sure, I understand.

A And I assume you will check these things with Oakley in whom I have considerable -- for whom I have respect and his memory. He certainly knows more about this than I, and I trust his memory is better than mine on this. But my recollection is that Bob and perhaps Arnie Raphael, at the same time in the same conversation, but Bob certainly said that Ollie had -- he had learned that Ollie had okayed an Israeli flight and the implications, of course, were the United States okaying arms for hostages, and everybody started moving, and the Secretary obviously was opposed to it from the instant he found out about it.

Q Once he told you this, what did you do with that

A Well, I may have spoken to Abramowitz about it -- I certainly did speak to Abramowitz about it, but whether Abramowitz knew first or I knew -- in a sense the Secretary was ceased with the issue. The Department mustered its forces at the Secretary's level to try to stop this thing. We thought it was stopped, and that was the last word that I had.

I have to add that I smelled rats later.

Q Did you talk to anyone at the NSC?

A No, I had very little -- the only person -- I occasionally went to NSC meetings, but normally Mort did if someone from I&R were to be present. There was really the CPPGs which Armacost would go to. That Iran caper was never under discussion at the few meetings I went to over there. I occasionally had contact with Ollie North -- very occasionally by choice.

Q For what purpose would you be in contact with North?

A Well, my first contact came with North, the first time I met him, was at the time of the Grenada intervention and he was present at the meeting where I was briefed and went over my instructions for that. That is where I met him. I don't recall him saying anything at that meeting.

I guess the second time was in late 1984 when I went over to a meeting on what could we declassify about --

I went over with Otto ~~Wright~~ Reich to a meeting at the NSC -- what could we declassify about Nicaraguan assistance to the Salvadoran insurgents? This was before the congressional -- before the Presidential elections and Ollie started off by saying, I think, I suppose we all realize our purpose for being there is to get the President reelected.

And I guess I probably demurred mildly, sort of suggested we were there to help the President's policy and do what we could to get this information properly declassified, because I remember he asked me afterwards, who are you? Took my name, rank and serial number.

[redacted]

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Q Aside from your knowledge of the one arms transaction, which you have described to us, do you have any knowledge first or second hand, of any of the other arms transactions?

A No. Not until the stuff came out, you know.

I wondered when Father Jenko came out what was going on, but since we had been obviously cut out of everything which I could get to in a moment, we didn't know what we didn't know, and so I must question how did he get out, you know, that arose in my mind.

Q Was there any corridor gossip? We have talked, Terry and I have talked to several people at the State Department and we know that there was some rumors that Ollie is up to something. They would hear something and they would hear it would be off, on, and off again.

A You see generally the thing was that we didn't get any hostages out to speak of. Consequently, you know, what we looked at now as we come to see it on the record, is an exercise in enormous futility. A couple of hostages out and a couple of hostages taken.

If you are using your analytic mind on this, it doesn't look like anything is going on. Maybe for some reason or other they decided to get rid of a priest because there is so much international interest in a man of the cloth.

At the time Jacobsen went out, which is just before the Shar'a article, there was a lot of -- at that time there was corridor speculation, and I remember I was in charge of the Bureau and when Abramowitz came back, I said I think something is going on on the hostages. I am not sure what it is and I have chosen not to inquire because we just don't know what is going on. But there is something going on and you ought to know that.

That is the only time I really had a suspicion, not really personally, at the Jenco time, because it seemed tied to his status as a religious figure.

Off the record for a second.

(Discussion off the record)

MR. TRAYLOR: Back on the record. Why don't you go ahead?

THE WITNESS: After the story broke, of course, we found out that we had been cut off from [redacted] all that stuff that was going on.

I should add parenthetically, if you have a situation in which most of the Executive Branch charged with dealing with sensitive actions, the Congress and the American people are all frozen out of it, but you know that every [redacted] knew exactly what was going on, and you know that every sleazy arms dealer in Western Europe knew that somebody was trying to make a killing on the Iranians with the U.S.'s blessing, you know, it is a very sad commentary.

You know the reason they cut everybody off was they knew people would object to it. That is essentially -- and that if enough people were witnessing the noise would become too loud for this stupid initiative to bear. That is essentially I think why.

But we found that out, and I then called [redacted] and I said, look, I want to get this stuff. The Secretary needs it. There is no reason now, it is on the street. We want to see all the stuff you have and we would like to get a package of it right away.

He said, you know, Frank, I understand what you are telling me, and I think you are right, but I can't do it without checking with Poindexter, who was still NSC Advisor at that time.

I said, all right, I understand that.

He called me back, say, 24 hours later [redacted] to say he had spoken with Poindexter, who said I am still in charge and they can't have it.

Poindexter then left office about two days later and we then made arrangements in fact, not to take the stuff into the building, but in fact to have our Director of the Office of Terrorism, Jerry Sutton, go over and take extensive notes on it and bring back a precis for the use of the Secretary and Armacost and Whitehead, and that is what we did.

Jerry spent I think two days over there being briefed, or you know, a full day or two half days, getting briefed, and we did an extensive memo summarizing the principal points.

The thing that stood out obviously from this was that it seemed to be an arms for hostage deal. Occasionally, the Americans would raise something about wider relationships, and Iranians would keep talking -- Ghorbanifar or whoever it was -- would keep talking about arms and hostages.

BY MR. TRAYLOR:

Q You know, I am intrigued about that. You say the Secretary of State knew that the State Department had been cut off?

A We all knew at that time, because it was now on --

Q I am going back to the period of time when you were actually cut out.

A Did he? I don't know.

Q You are not aware of the Secretary of State being knowledgeable of --

A No, because none of this information was distributed to the department. Except for the PDB, the only vehicle for the distribution of sensitive intelligence, highly sensitive intelligence in the Department of State, that is, we handle and manage the distribution of highly sensitive intelligence [redacted]

[redacted]

Q Maybe I missed it. Let me cover it again. When you learned that you had been cut out [redacted] what did you do with that information -- the fact that the State Department wasn't being given this information?

A Oh, we told, you know, we told the department principals, but this was after the thing had blown now.

Q The revelations?

A I don't remember how we knew, we may have --

Q After the November revelations?

A That is right. We may have surmised and I may hav in fact queried [redacted] I personally may have initiated a query on this.

Q You didn't know contemporaneously that you were not being given [redacted]

A No.

Q I am sorry. I misunderstood.

A If I said that, I would have to go over it, but no, I did not. Only [redacted] and the arms dealers knew at the time.

MR. TRAYLOR: Terry?

BY MR. SMILJANICH:

Q Let me jump in and cover some matters concerning the Central American part of this whole story.

THE WITNESS: Is it possible for me to get a drink of water?

MR. TRAYLOR: Sure.

Off the record.

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(Discussion off the record.)

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THE WITNESS: Could I return to the question of Jacobsen for a second.

MR. TRAYLOR: Yes, let's go on the record then.

THE WITNESS: As I said, you know, there was skuttlebut it seems to me at that time that there was not only Jacobsen but something was going on in the hostages in general and that is what I now think inspired me to sort of say they must -- are they resurrecting this sort of arms deal because that was the one time I was really suspicious. It wasn't just one hostage, it sounded like there were more coming out.

MR. TRAYLOR: Did you talk to anybody about it. Did you tell anybody about it?

THE WITNESS: As I said, I don't remember where I heard it. One talks with people in SCT and NEA which is where I would have heard it and I told Mort as soon as he got back and I said I have not inquired but there is something going on in the hostages and I don't know what it is, but it raises questions.

And he said, Mort said that may be right and he was going to go check into it but I think the whole thing just blew then. It seems to me within -- the Shaar'a article was within a day of Mort's getting back if I recollect these things correctly.

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The other thing I was going to say is that in returning to the thing where, a handful of people at least knew something about it, you know, what were you going to do about that? As far as I was concerned at least when we heard that we had won -- thought we had won -- and this wasn't going to happen again I think everybody breached a sigh of relief. It was clear that if anybody said anything in a way that got out, it seemed we might be endangering the lives of the hostages, so I think that is the reason why I assume other people felt the same way, I certainly felt that way.

You knew it was wrong, it raised questions about not only policy but it raised potential legal questions as far as I was concerned and as one who knows about the Arms Export Control Act and the requirements for FMS material and third country transfers.

MR. TRAYLOR: Okay.

BY MR. SMILJANICH:

Q Let me go back to your starting tenure as Ambassador to Costa Rica.

A Yes.

Q During that time period Thomas Enders was the Assistant Secretary for Inter-American Affairs, is that right?

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A That is right, Too Tall Tom.

Q When did Tony Motley come back?

A Tom and Dean Hinton and I all left at the same time in July '83. And Tony became Assistant Secretary -- well he was nominated when the announcement of Enders going to Madrid, leaving ARA and going to Madrid and Motley becoming Assistant Secretary, it was made at the same time.

Q While you were Ambassador to Costa Rica and Enders was Assistant Secretary, was there a restricted interagency group in existence dealing with Central American affairs?

A Probably, whether it was called by that name or not there was certainly some kind of restricted group.

Q Were you aware of it? Did you deal with it?

A No, not in any -- I may have gotten instructions emanating from its discussions but there was a small group of people who were dealing with the Central American contra program and that included in State Tom Enders, Craig Johnstown, and Steve Bosworth, who was Deputy for a long period of time before moving over to Policy and Planning; and Tony Gillespie was then the Ambassador to Colombia. But it was Special Assistant to Enders at that time and later became Deputy Assistant Secretary of State.

Q When you came back to Washington from Costa

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m4 Rica and became Senior Deputy Assistant Secretary INF --

A After a year's interval.

Q After a year's interval, tell me what you saw with regard to any RIG that was in place under Mr. Motley or how it worked.

[redacted]

And there were and had been meetings I guess at one stage of the game throughout with all the regional bureaus, not necessarily RIGs but meetings in which a senior officer from I&R, usually the office director, would meet with, say, the principal deputy of a regional bureau and one of the senior people from the Central Intelligence Agency to discuss on a periodic basis. This didn't uniformly work but that was the theory and it was honored more in the observance than in the breach.

That was not in effect as I understand during the Enders period as I now -- as I understood during the Enders period or the early Motley period. With the Secretary's instruction Tony invited I&R to the RIGs and my predecessor Herman Cohen went to some RIGs. When I got there I guess I went to a RIG or two and I found a lot of the stuff being discussed was not really within the perview of I&R and we worked up a separate meeting which I, as I set forth in my letter to the two chairmen, which we have in effect in some other bureaus for discussing covert sensitive intelligence matters which was I think sort of chaired by Gillespie, John Wiant from our bureau went and someone from CIA's DDO, Latin American Operations would go, and they met fairly frequently.

Q This was a separate meeting from the RIG?

A It was in lieu of going to the RIG which I frankly didn't want to. I went to a couple and as I say my predecessor went to some and I tried to get Tony Motley to permit John Wiant to go but Motley pointed out as was his right, that he was perfectly prepared to have me go but he wanted no one lower because he didn't want that room filled with people of lesser rank from Defense Department and other places. He wanted senior representation.

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and if he broke it for me he would never be, broke it for I&R he would never be able to hold the line with other agencies who were present in this RIG which I must add is a fairly large group.

So we set up to fulfill the Secretary's instructions as a separate meeting which I thought worked rather well.

Q Although you didn't attend --

A I attended some, maybe a couple.

Q Although you didn't --

A But I had a standing invitation from Motley to go.

Q That was what I was going to ask. What was his attitude up to the time he left concerning your presence at a RIG meeting if you wanted to attend a RIG meeting?

A He was always open to us to go, having worked out these other arrangements. It was not necessary to go, however, to fulfill the Secretary's desires but I did as I say, my predecessor went and I went to a couple of them.

Q Did you --

A I may have gone to some special RIG after these arrangements were on, the one that we had a particular interest in, but I can't remember, I certainly didn't go to more than 3 or 4 RIGs during that period personally.

Q Did you know when a RIG meeting was going to take place? You or your bureau?

A I think we did.

Q Now, did that standing situation change when Elliott Abrams became Assistant Secretary?

A Yes.

Q How did that happen?

A Well, I don't know how it happened but I do know what happened. At the time of the announcement we offered to sort of brief him on how covert, particularly covert programs and coordination of clandestine intelligence were handled, the rules for handling it. He never took us up on that offer.

Later he was to designate after Mort Abramowitz talked with him a couple of times, he was to designate his special assistant, Mr. Kagan, as his representative but we never saw anything of him, either. It was a stone wall frankly and we never -- until much later after admonitions from Armacost that I&R had to be brought into the process, the Senior Deputy Assistant Secretary in the ARA, my counterpart, Mr. Michel, tried to institute the old arrangements under Motley, but with the caveat that Central America would not be discussed and we ran immediately into problems in even doing that with the Central Intelligence Agency whose people by then were aware of, shall we say, the difficulties in the relationship between the ARA and

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I&R and didn't want to get in the middle, and the senior fellow of the Central American Task Force guy obviously [redacted] didn't want anything to do with us. So there were some meetings held, rather desultory and others were useful really because of dealing with events outside Central America.

Mr. Wiant went to them and if you were interested you could talk to him about that. But essentially we were frozen out during the entire period despite protests from I&R.

Q Approximately when was this that Jim Michel started to start some other type of process excluding Central America?

A I don't remember but it was say six months out after an admonition from Armacost. I could find out the date or you could ask John Wiant or Mort Abramowitz who have the files and could tell you.

Q Was it sometime in 1986?

A I believe that to be the case. That seems right to me. Probably the spring of '86 but I am not sure. My memory on dates is very bad without files to refresh myself and I have not refreshed myself.

Q Now, it seems that when it comes to covert activity --

A There weren't very many of those by the way,

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either, of those meetings.

Q When it comes to covert activity in Latin America the action if I can use that word really is in Central America. Were you told why Central America was excluded from this subsequent process?

A Well, we were given to understand that Mr. Abrams didn't want us in and he particularly didn't want me in.

Q Were you ever told why? Did you ever have any indication as to what the problem specifically was?

A No, but it is in the context of Mr. Abrams complaining to the 7th floor, that is to Mr. Armacost, and Mr. Whitehead, that the Bureau of Intelligence and Research and Frank McNeil in particular were seeking to undercut policy by its analysis and in the context, after all, of this bizarre exchange of memos that we had at the end of the year, at the beginning of 1986 in which Mr. Abrams sent a memo to Ambassador Abramowitz saying, three-page memo attacking one sentence in a one-page analysis by one of our analysts of the situation, political internal opposition situation. The one sentence said, sort in the context of what would happen if the contras won, and the sentence said, we don't know anything about the political attitudes of the contra military leaders.

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That was the sentence he attacked.

The things I remember he said were that it was neither intelligence nor research analysis. It was sort of indistinguishable from that of the critics and that the CIA knew all there was to know about contra military political attitudes.

And there were a number of other pleasantries in the three pages, all sort of pointing at the notion that I&R was not part of the team, it was out there sabotaging the President's policy and anyway didn't know what it was talking about.

Q Was this an analysis by Evangeline Monroe?

A Yes.

Q Going back to when Abrams first became Assistant Secretary --

A Let me add one thing about that. I replied in equally pleasant terms to Mr. Abrams because Ambassador Abramowitz was out of the country and our analysts drew up the reply and I went over it and signed it out to him, and we had in fact checked with the CIA, both the DDO and analysts, and they really didn't know anything about the political attitude of the military leadership and subsequent to this exchange of pleasantries between Elliott and myself, subsequently the Bureau of Inter-American Affairs spent six weeks in response to congressional requests seeking to answer something about the composition of the contra military commanders. Evangeline Monroe assisted Mr. Inodi's office in preparation of this to some extent and it was a very good and accurate listing of their origins, that is were they ex-Sandinistas, were they next Somoza National Guard, were they peasants, teachers, but it didn't say anything about their political attitudes. They may have been, you know, devotees of the Federalist Papers but I don't think we still know.

Q When Abrams first became Assistant Secretary though I am still trying to pinpoint what changes; in other words, for example, did you know as you used to know under Assistant Secretary Motley when a RIG meeting was going to take place?

A No.

Q You meaning I&R?

A No, and if we did know we were not invited. It was made clear we were not invited to RIGs and the old statute arrangement which worked perfectly well was discontinued upon his arrival, not to be resurrected, and then only in very limited form by Jim Michel much later.

Q Can you be any more specific as to how it was conveyed to you that you were no longer invited?

A We kept --

Q Did they tell you?

A For a while we got what might be called the silent treatment I suppose. We kept asking, John Wiant in particular, I instructed him to check with Jim and Walker and for a while there was no answer, and then Mort spoke to Abrams, Mort Abramowitz spoke to Abrams once or twice and Abrams said he would consider it and then he designated Kagan but Kagan never showed up.

We finally were able to convince them of the -- we had one kind of security problem involved because there are very special arrangements, what the White House calls available material. They were not observing those arrangements because they didn't know about them.

The new bureau, there were a number of changes. It took us as I recall some months to get them to finally handle the paperwork better and there were still times when they didn't. That was part of the problem they brought on themselves by not in fact observing the arrangements because we were actually there among other things to insure that the rules are kept and if we got documents we would get revised findings from the NSC, of course, and we handled them under the rules applicable to available material, but if they were getting things on the side from [redacted] we had no assurance of how those were being handled.

Finally we arranged a list of available cleared people in that bureau which they should have had from the beginning but did not have.

Q How was --

A It was very sloppy.

Q How was I&R's relationship with other regional bureaus?

A Good. We would just have fights over analysis but people might cast doubts upon our intelligence, our brains on some of the things we were saying and sometimes they were right and sometimes they were wrong, but it was collegial. It was a collegial relationship.

Q How would you compare the relationship with other bureaus to the relationship with ARA?

A Like night and day. The other bureaus -- ARA, it is ARA under Abrams we are talking about. We had the same kind of collegial relationship with Tony Motley and Tony is not a shy man. He has a rather rich vocabulary and he would pick up the secure phone and occasionally call me and use that rich vocabulary on my asking why we had done something stupid and occasionally I would agree with him and sometimes I would convince him that actually we were right.

But it was a collegial relationship dealing with very sensitive issues that brought about contention and sometimes that contention was heated. But no one else in the Department of State ever thought that we were disloyal or seeking to undercut policy, and I include Tony Motley in that with whom I worked rather closely on a number of sensitive matters.

Q Were you ever aware that, or did you ever have any indication that there was in addition to the rather large RIG in place at ARA under Abrams' tenure, that there was anything known as the mini RIG?

A Well, I don't know if it had a name, sub RIG or mini RIG. Depends on what they called it. I'm aware of course that [redacted] and North and Abrams met frequently. I had thought that Nester Sanchez was part of those meetings. I gather from the record of the hearings so far that that may not be the case, but at least the three of them got together quite frequently.

Q According to the record developed so far it looks like the three of them may have gotten together in addition to William Walker, who was another frequent participant with them.

A Yes.

Q Talking about contemporaneous with these events now, you had a perception there was a smaller group, whatever they called themselves or however official it was, a

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smaller group of these people meeting to discuss matters in connection with Central America.

A Oh, yes, well there was nothing secret about it. The people came over, it was well known. I don't think there was anything secret about the fact that these people met very frequently in a small group. Whether they called it a sub RIG or mini RIG or if that is a tag somebody else put onto it because people liked to make up acronyms or what have you, maybe they did call it a sub RIG but I don't know what they called it but they had a small group meeting.

Q Did you ever have any discussions [redacted] about his activities in Costa Rica concerning the secret air field or resupply of the contras?

A Not about the secret air field, but in 1985 when I made my trip to Central America for the first time since I had come back from San Jose Lou Tams was just coming in and [redacted] of course had been there for some time by that time, [redacted] had not worked for me [redacted] I think it was something to do with the fable of the contras' new uniforms. [redacted] So I met [redacted] for the first time. I had about an hour-and-a-half discussion with him on Costa Rica in general, and we

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talked about the southern front. As I talked with Lou Tams also. But it was sort of in the context when the funding comes or that was my understanding of it. And I remember saying to -- let's deal with [redacted] first.

[redacted]

[redacted]

And he also remarked to me that the Cuban Americans, hindsight is very interesting, Cuban Americans were going to be a very big problem, and that was the substance of the discussion with him.

Q Tell us about the discussion with Ambassador Tambs.

A It was somewhat similar with Tambs saying, you know, this place, the fight is inside -- as he said on the stand -- the war is in Nicaragua, it is not in Costa Rica and they have to be in there if they are going to do anything and the tenor of the discussions as I recall them was quite similar.

Q Did you --

A Except it was in more detail with [redacted] who had been there so we were comparing notes from my time and all that sort of stuff.

Q Did you talk to Ambassador Tambs before he went down to Costa Rica?

A No, I talked to him in Costa Rica. I guess I had met Lou before but actually the time I had the longest session with him was we probably had two conversations in August or late July of '85 on that trip. We had lunch once and we had a conversation another time.

Q Did he tell you about instructions he had been given?

A No, he did not.

Q When he went down there?

A No. Nor did either of them mention the air strip.

Q Did [redacted] ever tell you at any time that he was concerned about his activities and the high risk nature of them?

A Well, he expressed -- in a sense he was expressing concern about -- again I thought it was in the context of projected renewal of official U.S. funding. He did express concern about the risks in Costa Rica and he expressed concern about the activities of the Cuban Americans which might get, might either had or might get out of hand. I don't recall because he didn't give me any details.

Q When did you first hear --

A So in a sense I suppose the answer is yes, that he did express concern about the risks and the difficulties of a contra program in southern Nicaragua.

Q When did you first hear about the air strip in Costa Rica?

A I still keep scratching my head on that and I am not sure but it would have been, I think, when it became public. When there was this non-press conference in

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September, but it started leaking out right afterwards that there is something wrong with all the testimony in the sense that Minister Garron did not give that press conference but in fact, the Costa Ricans did announce their closure of the strip and that is not on the record and it ought to be on the record that despite the so-called threats levied against them, they went ahead and announced the closure. They delayed it but they announced it.

[redacted]

Q What was your reaction when you saw the Tams cable relating the Singlaub-Pastora agreement?

A I had two reactions. I must say I did have a reaction that I don't see anything -- it says the United m20 States and how can he do that given the Boland Amendment. I don't see anything in that cable that makes clear that Tams in fact said you can't commit the United States. It didn't say it in the cable. I did have that reaction.

But the other reaction, one that I think Ambassador Abramowitz and John Wiant and I shared upon looking at that back channel was that isn't it nice that someone is actually reporting what is going on since there was very little reporting of -- no reporting of what we knew to be a "private", private in quotes now, what was supposedly a "private" support effort under way, and you knew that people knew more than they were reporting and it was hard to get a fix on what was going on without having better reporting. I mean it became in this time one of the most under reported, presumably critical foreign policy issues facing the United States, the whole sort of contra war question.

Q You mean the extent to which there was private U.S. involvement with that war?

A Yes, that is right. So I was actually sort of glad to see some reporting and quite frankly, quite surprised by the tenor of the response going back to Tams because I would have thought there were a couple of ways to do this and one was to pick up the phone and say, did you tell him, and if you did, would you please send a supplementary cable and the second [redacted] was to send him a cable saying, what did you say to him? "Did you say" -- instead of sort of assuming that he had somehow or other become part of the Singlaub effort which is what the assumption underlying of the return cable is as written. I didn't understand why and I must say I had a suspicion then which is now larger which was that it was a way of telling Tams not to report anything any more.

Q Okay.

A In which case I would think John Whitehead did not know that assumption.

Q Tell us about the situation that arose in the spring of 1986 concerning a reported incursion of a large number of Sandinista troops across the Honduran border. There was, I know, a flap that was created, another flap between I&R and ARA over the matter. Tell us what you recall about that?

A I set forth the bare facts in my letters to the two chairmen of the select committees.

Q Excuse me, for the record you are referring to a couple of letters you have just recently sent.

A I sent last week to them in response -- you have them?

MR. SMILJANICH: I haven't seen them.

MR. TRAYLOR: I haven't seen them.

THE WITNESS: Here it is. I will now recount them for you. In the holy week of 1986 the Sandinistas sent a substantial number of troops into what is known here in the United States and the Community as the Las Vegas Salient. It is sort of a bump in the map created by a bend in the river. It is really a rather small area. I don't remember the kilometers across but it is not very large, although it is sort of jungled and sharply hilly and lots of brush and trees.

[redacted] the Sandinistas put in a large probe and force, something they had done once before on a fairly large scale. The initial intelligence as it always is in cases like this was skimpy, you had a feel, you knew from the intelligence that it was a sizeable incursion, you could not tell how many people had gone in. There is just no way of doing that. And you were actually in affairs like this generally getting a more precise fix later on which I think we may have.

But at the time the Defense Intelligence Agency analysts and our analysts drawing on this fragmentary intelligence assumed a number of about 800. People I think in the analytic side of CIA were talking about 1500. The Central American Task Force, [redacted] in particular, pushed a considerably higher figure with North I gather pushing for, and Abrams as well pushing for it, over 2000, 2400.

I got a call from the National Intelligence Officer for Latin America, Bob Vickers. This thing is going on, we are trying to get the Hondurans to announce the incursion since we have announced it up here but they have not announced it down there and I got a call from Vickers and in somewhat agitated state saying the NSC -- as I recall I think he mentioned both Poindexter and Ollie North, but I may be wrong -- but he said the NSC wants us to get up a Community estimate. We have to get one right away. And either he or I said the natural thing, let's get a range which is what we, the Community traditionally does, how many Cuban advisers are there in Nicaragua, well the ranges vary but say it's [redacted] security and military advisers.

That range may be wrong as we are often finding out in the case of El Salvador where we found out the numbers of insurgents was smaller than originally thought. But it is an intellectually respectable intelligence tool for dealing with an issue that is not completely quantifiable.

So Vickers and I agreed with a range of 800 to 1800. I thought the problem was over with but it wasn't.

Abrams sometime during this period had announced

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as I recall in the press 2400 coming in. Not only didn't we agree with it, but there was no way to put that precise a number on it.

At that time Armacost gets a call from Admiral Poindexter complaining about our analysis, complaining about our analysis and I think complaining that somehow or other it had found its way to the intelligence committees and I don't know how that happened or whether that in fact is a sin anyway. Normally one -- we didn't have a briefing of the intelligence committees so I really don't know, but in briefings before the committees intelligence agencies do disagree on matters of analytic nature and I called Vickers back and I said, what is going on? I said, I thought we had agreed on a range.

He said, well, it wasn't satisfactory to the NSC -- or words to that effect.

This thing sort of ground on and I think eventually we probably, the Community probably concluded that there might have been at one moment as many as 1500 inside Honduran territory. So our estimate was low but it illustrates the Vietnamization of the intelligence process in a very big way that now we have to have politically taylored intelligence to suit our national needs. You know, there were other examples but this one just stands out as a bad way to do business.

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BY MR. SMILJANICH:

Q Well, for example, when this problem comes up, when there is a situation involving some type of incursion whether it be small or large, wouldn't it be normal for the Inter-American Bureau to actively involve I&R and have meetings and discuss these matters. Wouldn't that be the normal process? Was that done in this case?

A Not to my knowledge. It was not done to my knowledge. I am sure there were a few thunderbolts hurled or views which differed from theirs. I would have to say in all fairness that the geographic bureaus have as much expertise on any given subject, perhaps as the Bureau of Intelligence and Research, and the purpose of the Bureau of Intelligence and Research is what you might call an institutional second opinion. So I have no difficulty with a geographic bureau holding a different view from the State Department's member of the Intelligence Community.

What I have a difficulty with obviously is the attempt to tailor, to cook to taste the analysis, short order intelligence in this case in order to impress the Hill I suspect with the gravity of the incursion.

It's also kind of stupid because no one disagreed that there was a sizeable incursion in Nicaragua. It was unnecessary. All one had to do was give a reasonable range and it would have been accurate and reasonably accurate and quite clear that there had been a sizeable Nicaraguan invasion -- not invasion, incursion, so why they did this remains a mystery to me.

Q Was there any follow-up to that or is that it?

A I think that was the end of that one, yes.

Q Well, in summary is it fair to say in addition to the problem with as you term it "cooked intelligence", the fact is that during 1985 and 1986 when you were at I&R and Elliott Abrams was Assistant Secretary, that the process of using I&R as a resource for expertise on covert matters as a resource for a second opinion in connection with intelligence matters was in fact something that wasn't used by Inter-American Affairs?

A I think to split the two things of I&R. I&R has two functions after all, one is analysis and the other is coordination of sensitive intelligence activities. In respect of coordination of sensitive intelligence activity we were not used.

Q Okay.

A Except with in certain things with respect to South America and [redacted]

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But aside from that we were not used on Central America in the coordinating role prescribed by the Secretary.

Now as far as analysis was concerned, as far as I said earlier Abrams spent a great deal of time attempting to discredit our analysis and our motives for producing it and our analysis in some said that the contras -- the point of contention was how well are the contras doing, and we were saying that for both political and economic reasons, political and military reasons they were not doing very well, and that projections of the repeated projections being given to the committees, give me six months and another 100 million, you know, and things will be a lot better, were not justified by the intelligence on the ground of what was actually going on, and there was enough of that for us to be able to make those judgments and the events of course have proved us to be correct.

What happens next I don't know, but during this period our estimates were correct and the optimistic Polyanna estimates were not.

But I do have to say, and it is very important that when Abrams went to Whitehead, John Whitehead and Mike Armacost on a couple of occasions and I guess sent one memo saying, at least one saying the same thing, in the fall of 1985, they told him to take their complaint, to

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take his complaints to us and they never told us to trim our intelligence analysis and so far as I know, the Secretary and Armacost in particular read it all with considerable interest.

So we did serve as an institutional second opinion for the 7th floor of the Department of State. They never told us to trim our sails.

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STEIN
11:35
CAS-1

BY MR. SMILJANICH:

Q Okay. Tell us about the occasions in which you were -- you and your Department were made the subject of leak investigations pursuant to complaints by Elliott Abrams' bureau?

A The first occasion happens right after I returned from my trip to Central America. I don't write very much. The job was more operational management of the Bureau from Ambassador Abramowitz. I don't write very much, but I took a trip and saw some things that I thought weren't out there.

I went to Panama, Costa Rica, Guatemala and Nicaragua, and I spent four or five days in Nicaragua and travelled around the countryside, as well, near the fighting, as a matter of fact. There was heavy fighting going on at that time.

I didn't get into it, but close to it. I came back and I wrote a trip report for the Secretary, some of it highly perishable, but there were two things I really wanted to write about.

First was Guatemala, although I spent less pages on it, to point out that after lengthy discussions with Guatemalan military officials I had the feeling that the Guatemalan military would permit free election and accept Cerezo if he won, which he did, and they did.

AS-2

[redacted]

The other part, the more lengthy part of this memo that bears telling was about Nicaragua and the contras. I pointed out Nicaragua was in economic ruins, that these people didn't seem to be able to manage themselves, and that their military effort, however, was growing and the contras didn't seem to be able to respond.

[redacted]

[redacted]

I heard afterwards that the Secretary, when Abrams was, I guess, giving some kind of an optimistic estimate after the Secretary had received my paper, the Secretary said you are saying things are going fine, but Frank has just come back and is taking a different view. I gather that didn't please Elliott too much.

Shortly thereafter, after this, I think it was in early September, I have given you copies of my files so you know the date, but it was something like September 2nd I received a visit from two security investigators -- no, sorry -- prior to that an article appeared in the Washington Post quoting a document which the authors, the Post correspondents, obviously had, of a memo for Abrams for a chief-of-mission meeting.

The memo was a draft written by someone named Lamay, who worked in the Bureau of Interamerican Affairs. I remember I called both Jim Michel and Rick Melton, who by then had become the office director for Central American Affairs, and asked them why I had to read their damned memos in the Washington Post.

Wouldn't it be useful for them to share these memos with us as a means of providing an ambience in which we can do better analysis.

Both of them kind of fobbed it off and that was the end of that until I received what was an urgent visit -- I got a call at, say, 1:30 from security officers, Annette -- I can't remember her last name, it is down there -- and another fellow whose name I don't remember, saying they had to see me right away.

They came in and they said we are told that you may have been the person who leaked this memo. And I got kind of upset because it wasn't -- it was clear to me it wasn't a normal leak investigation. The way they had started was "have you had access to this document". They were told that I may have leaked this memo, suggested that I leaked this memo, and I pointed out to them that I hadn't seen the memo until I read it in the Post, and moreover I didn't know either of the two correspondents.

I sort of almost lost my temper and said who did this, that sort of stuff, which they couldn't tell me.

They then went on to say that they understood that I had a relationship with someone by the name of Larry Burns, who has an outfit called Council on Hemispheric Affairs, and they were told that I had leaked information to him about Otto Reich, who was a candidate for the embassy in Caracas, for use in the Venezuelan press.

I pointed out that I hadn't seen Burns since I was in Boston and that he and I didn't like each other and I had a rather heated argument with him at a seminar at Dartmouth. This says that someone is accusing me of giving information to use against Reich in Venezuela so I can get the job, and that is a serious allegation.

You will note in that file that is a flat statement to that effect, he leaked information about Reich to Mr. Burns. I then spent the fall attempting to force people to a conclusion on this part of the investigation

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and, in fact, I was able to do so in the first part of 1986.

As the file will note, the chief investigator says I was not at fault in this matter -- without fault or not at fault in this matter.

Which takes me, of course, to a question that Abrams got before the Senate Foreign Relations Committee in which I think Senator Sarbanes asked him did he not know that security had not developed any evidence against me, and he said yes, he had heard that, but then they never catch anyone, sort of implying that if they had looked harder they would have found me.

So that was that leak investigation.

I finally got to my files, really under Freedom of Information, eventually with -- in October, I think, after I had written my letter to the Secretary on the resignation.

But that -- the head of security knew, Mr. Schwartz, who sent me my files, when I spoke to him to thank him for calling, he said, look, Frank, you understand I can't say anything about the details of this, but I now understand why you were so angry.

So that is the one leak question.

The second leak question, of course, is the memos which were discussed with Mr. Abrams and I don't know what you would like me -- there is one thing, the author -- I never met the author of the Miami Herald article, Mr. Chardy, I had not met or spoken with him until about a month ago, when Congressman Gephardt's staff people put together a lunch so that Chardy could meet his putative source.

Chardy has told me with the authorization of his editors that no one in the Bureau of Intelligence and Research was a source for that story.

Q Okay. That is all I needed to get on that issue. One last matter I would like to touch on.

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[redacted]

Q Okay. That is the information I wanted to get on the record.

Tim, any questions?

MR. TRAYLOR: No questions.

MR. SMILJANICH: Okay. That will conclude --

BY MR. SMILJANICH:

Q Is there anything you wanted to add before we go off the record about any of the matters we have discussed?

A It seems to me that the Tower Commission's observations about the failure of the process,and they made it, with respect to the Iran initiative, also apply to the Central American program. Expediency sort of took over.

The Sandinistas are a great problem for the United States or at least to their neighbors and we don't need Soviet and Cuban troops in Central America or Soviet bases or a Soviet presence.

But I just have the sense that what happened essentially is that people who didn't know much about the reason, who were driven to please the President at all cost, began to tell him what he wanted to do here, much as happened in Lyndon Johnson's day, and that any sort of critical examination of the program fell by the wayside at the same time clearly as the sort of bars expressed in the Boland Amendment were sort of ignored by some of these people. It is very unfortunate.

We are probably fortunate that it is a small area of the world, because had this happened to us in an area where hostilities could have resulted from this sort of incompetence, large numbers of Americans might have died. We really need to do our business in a more professional and sensible way.

MR. SMILJANICH: Thank you very much.

That will complete the deposition and we appreciate your making yourself available to both committees and appreciate the information.

(Whereupon, at 12:12 p.m. the deposition was adjourned.)

HSITS 120 /87

DEPOSITION OF BERNARD MAKOWKA

Friday, May 15, 1987

United States Senate
Select Committee on Secret
Military Assistance to Iran
and the Nicaraguan Opposition
Washington, D. C.

Deposition of BERNARD MAKOWKA, called as a witness by counsel for the Select Committee, at the offices of the Select Committee, Room SH-901, Hart Senate Office Building, Washington, D. C., commencing at 2:20 p.m., the witness having been duly sworn by RAYMOND R. HEER, III, a Notary Public in and for the District of Columbia, and the testimony being taken down by Stenomask by RAYMOND R. HEER, III and transcribed under his direction.

Declassified/Released on 21DEC87
under provisions of E.O. 12356
by [redacted] National Security Council
K. JOHNSON

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APPEARANCES:

On behalf of the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition:

TIMOTHY WOODCOCK, ESQ.

On behalf of the Central Intelligence Agency:

R. BRADFORD STILES, ESQ.

RHONDA M. HUGHES, ESQ.

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2	24

P R O C E E D I N G S

Whereupon,

BERNARD MAKOWKA,

called as a witness by counsel on behalf of the Senate Select Committee and having been duly sworn by the Notary Public, was examined and testified as follows:

EXAMINATION

BY MR. WOODCOCK:

Q . First let me put on the record who I am. I am Tim Woodcock. I'm an Associate Counsel with the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition. And this is a deposition pursuant to the authority of the Committee. Accordingly, this is considered part of the official inquiry of the Committee.

Why don't we begin by having you state your name and spell it for the record, please?

A My name is Bernard Makowka -- M-a-k-o-w-k-a. I am Associate Deputy General Counsel for Intelligence Law and Special Studies in the Office of General Counsel in CIA.

Q I would note for the record that Mr. Makowka is the only one that has a title that even approaches the length of the name of our Committee.

Mr. Makowka, if you would, would you just briefly outline your professional life with the CIA?

A Okay. I joined the Agency in 1967 and got my law degree at Georgetown in the evenings and moved over to the Office of General Counsel in 1975, where I've been ever since that time. My particular area of expertise within the office lies with providing guidance to our operational components. I'm responsible for interpretation of the President's Executive Order guiding intelligence activities.

Q Is that 12333?

A That is correct, and CIA's implementing procedures. I deal with the sort of stuff like [redacted] getting the necessary approvals.

Q That is assorted stuff rather than sorted stuff?

A Assorted.

(Laughter.)

Consistent with the intelligence order [redacted]

Q And you now have the title of Associate Deputy General Counsel for Intelligence Law and Special Studies; is that correct?

A Yes.

Q How long have you had that title?

A It is about a year since our office has been reorganized, but essentially I've had this position for several years.

Q So there was no real substantive change in your position when you acquired this new title?

A No.

Q Your immediate superior then would be who?

A Dave Doherty.

Q Dave Doherty is now General Counsel?

A General Counsel.

[redacted]

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Q Let me turn now, if I may, to the fall of 1985. At that time you became involved in drafting a proposed Finding for President Reagan; is that correct?

A Yes.

Q I'm going to show you what I will have marked as Exhibits 1 and 2.

(The documents referred to were marked Makowka Exhibit Numbers

1 and 2 for identification.)

Let me direct your attention to what has been marked as Makowka Exhibit 1. Have you ever seen that before?

A I never have.

Q Does the date, November 26, 1985, place that in the time period where you would expect to find such a cover sheet?

A Yes, it does.

Q Let me ask you to then direct your attention to what has been marked as Makowka Exhibit Number 2. Do you recognize that?

A Yes, I do.

Q What is that?

A That is a draft Finding related to the Iran matter that I was asked to draft.

Q Let me then turn to the development of that Finding. When did you first become involved in drafting what is marked as Exhibit 2?

A I was called in to a meeting by the General Counsel at the time, Stan Sporkin, as well as a couple of colleagues within the office -- Ed Dietel and George Clarke.

Q Where was that held?

A In the General Counsel's office.

Q And when you came in to this meeting what happened?

A Stan described that the Agency -- or not the Agency but somebody was contemplating making several shipments, as best I can recall, of missiles and related matters from Israel to Iran and the number four or five seems to stick in my mind, and that one of those shipments had already taken place the previous weekend.

Q Let me back you up to just clarify for the record. Your reference to four or five refers to airplane flights or shipments, is that correct, and not to missiles?

A Right, to shipments. And I'm not sure. It probably was flights, but I can't be sure of that, but certainly shipments.

Q Of some mode of transportation?

A Yes.

Q So who is providing the information on this activity?

A Stan Sporkin, the General Counsel. He said he had been asked by the Acting DCI, John McMahon, to look into this matter and to see if there were any legal problems with doing so.

Q Now did you receive any understanding from Mr. Sporkin as to whether any of these shipments had already occurred?

A Yes. One had occurred the previous weekend.

Q Did he give you any information on the particulars of that shipment?

A NOt other than apparently it had been a proprietary of ours, the CIA's, had been involved in that, so our people had been involved in that in some way, transporting it, and it was very clear that it was military equipment or missiles that was on that particular shipment as well as the others that were contemplated.

Q This is Mr. Sporkin that is conveying this to you; is that right?

A Correct.

Q You say Mr. Clarke and Mr. Jamison were also present?

A Not Jamison -- Dietel.

Q Excuse me. Dietel.

A He's the Deputy General Counsel.

Q And are they participating in this as well?

A Well, he gathered all of us to raise the question of what should be done, not just me.

Q So advice is coming from all three of you; is that correct?

A Well, we discussed it. George Clarke is responsible for covert action within the office, and so I think it was obviously why he was there. And Ed Dietel, the Deputy General Counsel. Stan mentioned that he had been briefed or was about to be briefed by some people at McMahon's request from our proprietary or the unit that manages our proprietary, and I do remember that it was considered better if they would be briefed on the facts and we were not. And so we never talked to individuals directly and so the facts came from John McMahon plus these individuals that briefed Stan.

Q I see. And your recollection isn't clear on whether at the time you met with Mr. Sporkin he has already been briefed by the people from [redacted] or not?

A Yes. My initial impression was that it occurred before we met. But I have seen evidence that it may have occurred right after.

Q After your meeting?

A Right.

Q Do you recall whether this meeting that you had with Mr. Sporkin is the day following the weekend?

A I do recall that the last flight was over a weekend, but I can't pin it down as to the Monday, although the 26th is the Monday. That would be logical that that would be the day.

Q Your best recollection is that the 25th is a Monday; is that correct?

A I think so.

Q At any rate, let me approach it this way. Your meeting with Mr. Sporkin, do you understand that to have been on a Monday or a Tuesday? Can you pinpoint it that closely?

A I think so.

Q Which do you think -- Monday or Tuesday?

A I really can't pinpoint it. I believe from looking over the facts that it took place on the 26th.

Q Maybe we can approach it a different way. From your testimony, you participated in the drafting of Exhibit 2; is that correct?

A Yes, correct.

Q And Exhibit 1 is dated November 26 and is a cover sheet for Exhibit 2; is that right?

A Yes.

Q Now when you drafted this Exhibit 2, was that done on the same day that you spoke to Mr. Sporkin?

A It was, but it wasn't finalized until the next day, it is my recollection. I believe, in fact, there were two meetings on it. There was the meeting at which we discussed what we needed to do, and there was also one to review the draft.

Q So the second meeting would have occurred the following day; is that correct?

A Yes.

Q Now if it is correct that Exhibit 1 is the cover sheet for Exhibit 2, and Exhibit 2 is the final Finding, then it would appear that the final Finding was prepared for conveyance on November 26; is that correct?

A As a matter of fact, I'm a little confused as to this cover sheet, because it is signed by Casey and at the time the meeting went on my recollection is that McMahon was the one in charge. So it must have been before the 26th.

Q That is, your having drafted the final version of the Finding must have been before the 26th; is that correct?

A Yes. I really can't recall the date. I have no way of verifying when it was.

Q Well, with that understanding why don't we then --

A Could I elaborate a little more on the meeting?

Q Certainly. Go ahead. That is what I was about to do, was return to the meeting. Now you are returning to the first meeting; is that correct?

A Right.

Q Why don't you elaborate on that, if you would?

A My recollection was that Stan mentioned that there were these shipments that were contemplated, and the focus of the meeting was more on the ones that were going to come up rather than the one that had taken place. I think the feeling is the focus was on that. The feeling is that the one that had already taken place, that stood or fell on its merits. That was water under the bridge at that point.

But it was characterized as NSC was involved in some way. There were others involved in this in some way. And the only way in which the Agency would be involved would be in transport and was there a problem doing this, and a couple of additional things were discussed.

One, that it was necessary or advisable to get a Finding. Was our participation sufficient so as to require a Finding? And I recall that the group, after a lot of give and take, decided that we should not be involved in any more shipments without getting a Finding. And Stan agreed with that recommendation, and he was going to take it back to John McMahon or senior management and pass that on.

And my recollection is that he was not entirely sure how well that would be received.

Q Why was that?

A Well, it elevated what arguably was just peripheral involvement in something to something that required approval by the President and implicates the CIA. It was making a Federal case out of it.

Q Did you get any understanding from Mr. Sporkin that Mr. McMahon himself might have suggested that a Finding was in order?

A Not during the meeting, no. But I do recall that he said sometime subsequent to the Finding having been prepared that management was enthusiastic about going the Finding route and thought that was a very good idea and was proceeding along those lines.

Q Now I gather in the course of a meeting you were called upon to do the actual initial draft of the Finding; is that correct?

A The way it sorted out is there was a discussion as to what should go into the Finding and in fact I have seen a document which we may have called the General Counsel's secretary in and dictated a rough Finding. The one I saw looked like Stan would have dictated it.

Then the meeting concluded and I was to take this draft and polish it up and turn it into Finding format, and we would reconvene, which I did, and I did stay late that evening and work on it.

Q Now the document that has been marked Exhibit 2, I gather, is the final version of the Finding; is that correct?

A Yes.

Q The one that you stayed late and drafted is not identical to this; is that correct?

A That is correct.

Q Do you recognize ways in which your initial draft differs from Exhibit 2?

A For one thing, I had an option as to whether or not the oversight committees would be advised of this Finding. When I was in the process of drafting it, I just didn't know what was desired or what would be appropriate, and so I put it in an optional form. I was also a little more specific in terms of the description, and I do recall mentioning Israel.

And I do recall being a little more specific as to the nature of the arms.

Q In what way were you more specific?

A I believe that the original draft, which I don't have a copy of, probably said missiles or missile parts or something like that.

Q And your reference to missile parts would have been based upon your earlier conversation with Mr.

Sporkin; is that correct?

A Right. Also, I can recall a third thing. That is that there is a phrase concerning facilitating release of American hostages, and I don't believe I had that in the earlier drafts. So those three changes were made the next day or whenever we reconvened.

Q Why don't we then proceed to that meeting and discuss the atmosphere in which your draft Finding was discussed and when these changes were incorporated into it? When does the next meeting take place?

A I believe it is the next day.

Q Who was present?

A Stan Sporkin and George Clarke, and Ed Dietel was not at that meeting.

Q I gather, then, that you produced your night's efforts for their review; is that correct?

A That is correct.

Q What happened when you did that?

A Stan was a little surprised, and I'm surprised that he was surprised because I had converted it into Finding format and he was concerned that the original draft may have lost something in the translation. And so we really went through almost line by line what was in there.

Also, he made the changes I have just been

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talking about.

Q Why don't we direct our attention, then, to those changes? You originally had a reference to Israel in your draft Finding. How was that changed?

A I believe the language -- and it's curious, but the reference to private parties was substituted for Israel.

Q You say that that's curious. Does the curious element arise from "private parties" being a good deal more ambiguous when one is otherwise referring to foreign nations?

A Yes.

Q Did you have any understanding at the time that indeed there might have been private parties involved in some of these prospective shipments?

A I didn't know any particulars, but I did have the feeling that there were intermediaries involved somehow. In the course of my job I am familiar with other transactions in which there is always a whole host of intermediaries and hangers-on in commercial deals of this sort.

Q So you assumed that perhaps this broad term was intended to govern not only just foreign states like Israel but also these private parties?

A I didn't know. I took Stan at his word. I

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assumed this was the replacement for Israel, but I could see why it could be considered as broader.

Q You could see that at the time or you can see it now?

A I can see it now. I saw it at the time, too.

Q But I gather there was no discussion as to the broader term encompassing something more than simply the State of Israel; is that correct?

A Right.

Q Let me then direct your attention --

A If I could, in the previous meeting another issue besides the Finding issue that we discussed was whether or not such shipments would violate the export control laws.

Q What did you perceive the problem to be there?

A Well, I'm no expert in that particular area, but somebody mentioned that before a foreign state, such as Israel, could transfer military equipment the President had to make some sort of determination if that foreign country had obtained the military equipment from the U.S. or if it would be replenished from U.S. stocks.

And as I recall the discussion of that issue, on the one hand nobody seemed to have any knowledge that the U.S. was going to do either at that particular time, that it had originally come from U.S. stocks or that it would be replenished.

Q Was that left open to be determined?

A Well, the idea being to get more facts as this thing sorted out, but if that were the case, that would be helpful not being a legal problem.

Q Was there a way in which the Finding could have been tailored to address that or was that simply beyond the ambit of Finding authority?

A Well, the second theory that was discussed at the time, as I recall, is that if a Finding were obtained it would resolve this sort of problem. It would be superseded by the Finding process, and that would be the determination by the President. So there was a general comfort on those aspects.

Also, we knew that in the Finding process normally when you prepare a draft those things are sorted out as they are considered by the various parties and agencies, including the Department of Justice.

Q So in the ordinary course the Finding is going to go through some other agencies anyway and, therefore, these problems would be raised and vetted at that level as well; is that correct?

A Right. As a matter of fact, we came out of that meeting feeling very comfortable with ourselves because we're saying we've got to go get a Finding on this, and that's it, or we can't participate.

Q Let me direct your attention back to the wording of Exhibit 2. You said that your original draft had a reference to what you felt was either missiles or missile parts. That phrase is not present in Exhibit 2. What language supplants it?

A I believe it is "certain foreign materiel and munitions".

Q Now why was that change made; do you recall?

A I believe for a couple of reasons. Stan had whatever facts there were. He had better knowledge than we did. But I believe he wanted that change to be broader and more encompassing because he wasn't sure whether he had all the facts or what it would turn out to be, and he wanted to make sure that it was covered.

Q Now the use of the broader terminology, I gather, is really directed at the prospective shipments; is that correct?

A The way it is worded, but there is a fourth change, and I will get to that in a minute. As I said, the focus was on prospective shipments, certainly in terms of our discussion and my drafting of it, and the last phrase, the fourth change that Stan made, was adding the phrase "all prior actions taken by U.S. Government officials in furtherance of this effort are hereby ratified."

Q And that is directed at the shipment that --

A At the one that had already taken place.

Q Fine. I want to get into that in just a minute, but let me go back, if I could, to this language on the foreign materiel and munitions as the supplanting language for missiles or missile parts.

Now at the time you and Mr. Sporkin and Mr. Clarke are examining this on the second day at least one shipment has already occurred and you are aware of that; is that right?

A Yes.

Q Now presumably there is no need really to use broader language to encompass that, because that is an accomplished fact, and whatever was in it was in it; is that correct?

A Yes, but I'm not certain how detailed a knowledge that Stan had. I mean, I believe and I've since checked with him that it indeed encompassed missiles, the first shipments. But as to the different types or whether there were also parts and that sort of thing, I'm not sure that he knew it in that detail, even with respect to the original.

Q That is really what I was driving at, was the quality of your collective knowledge at that time as to the original shipment. And I gather from what you are telling me that the broader language was intended to apply to the earlier shipment because it wasn't crystal clear that in addition to missiles or missile parts that perhaps something else might have been on the plane; is that correct -- or in the shipment; is that correct?

A I agree with the facts, but I believe that this first paragraph was drafted before that next one was, and when that was originally put in -- well, I guess it was modified. Yes, that is correct. That does refer to the original as well.

Q Let me direct your attention, if I might, to the retroactive ratification provision. I gather that that was added by Mr. Sporkin himself; is that correct?

A Yes.

Q And I gather the theory was that this flight had already occurred and that there should be some provision for encompassing it within the Presidential Finding; is that correct?

A I think it's my recollection that we really didn't debate in our discussion whether that required a Finding or not, and we didn't really know all the facts at that particular time. But Stan I think put this in on the basis that it probably wouldn't hurt to put it in to get acknowledgement and Presidential blessing, not that he felt that it was necessary.

There was a little debate as to what the effect of such a thing would be, and I can recall George Clarke saying there's no precedent in his recollection for this sort of language, but also someone saying there's no precedent for not using it and it couldn't hurt. And so I think it was added on that basis.

Q Sort of the same theory that causes people to wear belts and suspenders simultaneously; is that correct?

A We have since looked into this and there is some justification for ratification in statutes and other places. We have a legal memo on that. And when I was in my factfinding phase with Stan he recollected this original Finding on the basis that it was the nunc pro tunc Finding. So his memory focused him on that last provision.

Q That is a concept that I'm sure he's applying now in his application of the speedy trial act.

(Laughter.)

I think there's plenty of judicial recourse to that policy under that Act.

Now let me direct your attention before leaving Exhibit 2 to your earlier reference to that portion of the Finding that refers to the release of

Americans held hostage. I gather from what you testified to earlier in your draft that was not present; is that correct?

A Right. Stan added that.

Q What was the rationale there?

A Well, he believed -- and this is on the basis of whatever knowledge he had -- that these all related to the hostage negotiations, and I didn't know that coming out of our first meeting, that it was tied that much to it. So he knew more about it than I did.

And, secondly, he thought it would be more saleable or look better if it had "blood and guts", in his terminology, type issues apparent on its face rather than abstractions, a deal that would benefit our foreign policy or something like that.

Q Is that the language that was supplanted, that there was a reference of a rationale being that this would be of general benefit to our foreign policy or something along those lines?

A No, I don't think that was ever in there.

Q What was the rationale before the importing of "the release of Americans held hostage" phrase?

A Well, we knew there was some connection, or my original understanding was that there was some connection with the hostages. It was just the emphasis. Stan emphasized it more than I did.

Q Do you recall how it was that you phrased the rationale?

A I really can't.

Q Now after this Finding was redrafted were you given the task of going and putting the changes into it?

A I believe that it was given to the General Counsel's secretary.

Q And that was who?

A [redacted] But I was responsible for making sure that it was done properly for reviewing.

Q That's [redacted] is that right?

A Right. And I do recall looking at the typed version after it was typed.

Q I gather that your looking at it after it was typed was rather a proofing process; is that correct?

A Correct.

Q What happened then?

A That is the last I really knew about it. In fact, I must also relate the instruction to Stan was -- from Stan was that I should not keep copies of any of my drafts or any other copies of this particular Finding, and I dutifully got rid of them. And that's one of the reasons why I can't claim more accurately what happened in my initial drafts of this Finding.

Q You testified earlier, I think, that you saw not long ago something that approached the draft of this Finding; is that correct?

A No. You want me to get into how I discovered this Finding?

Q Well, I don't want to get into that, but as I recall your testimony --

A Oh, all right. Yes.

Q I gather that wasn't among your notes; is that correct?

A It wasn't among my notes. It was among [redacted] [redacted] dictation notes.

Q What are those -- shorthand or written out? What's the status of those?

A I think originally they were in shorthand, but they've since been written out.

MR. WOODCOCK: Let's go off the record.

(A discussion was held off the record.)

MR. WOODCOCK: Let's go back on the record.

BY MR. WOODCOCK: (Resuming)

Q Now did there come a point when this Finding was brought back to your attention -- and I'm thinking particularly in the December 1985 period?

A Yes. I went to a meeting with Lieutenant Colonel North and Charlie Allen down in his office in the

Old Executive Office Building.

Q And that was Colonel North's office; is that correct?

A Yes.

Q How did this subject arise?

A Well, I had previously dealt with Charlie on a terrorism matter involving the Achille Lauro. In fact, I spent a lot of time assisting the Department of Justice in that incident, in which there were some people who were in France, I believe, or Italy, the terrorists, or potential extradition, and that sort of thing.

And after we had gone through that it was apparent to us that it ought to be easier to get these people back and prosecute them, if that was what the government wanted to do. And Stan had one of my subordinates, Gary Cole, who you have spoken to, work on what we call an enterprise theory of liability.

Q And that's analogous, I gather, to the Racketeer Influence to Corrupt Organizations Act; is that right?

A Yes. So the idea was to develop that rationale on the basis of existing law and, if necessary, perhaps propose some legislation comparable to RICO, which we informally referred to as TICO -- Terrorist, blah, blah, blah. And Gary did a very fine job of doing that, and Stan had wanted to bring this to Ollie North's attention.

And so there came an opportunity to make a proposal of this nature. We tried for some time to set up a meeting on this subject, and Ollie is a very busy guy, and we saw him on Christmas Eve, December 24, 1985.

Q Now this meeting occurs, I gather, in North's office; is that correct?

A Yes.

Q In the Old Executive Office Building?

A Yes.

Q Now what happens when you and Mr. Allen arrive?

A Well, we couldn't see North immediately because he had some surprise visitors, two individuals who walked in, and North's secretary advised us that our meeting with him had been delayed for a few minutes. It turned out to be about twenty minutes.

Q And that was Fawn Hall who advised you of that?

A Yes.

Q Did she tell you who these people were or what their status was?

A She mentioned that they were Israeli intelligence types, and from their appearances that fit.

They were older individuals who knew Fawn Hall and had obviously been there before.

Q They were at North's office?

A Yes.

Q Now after these individuals left, what happened?

A Then we went in and had our meeting.

Q Just you and Charles Allen and Oliver North and no one else; is that correct?

A Nobody else. And we spoke for about an hour on the general subject.

Q That being the TICO legislation?

A Right, and terrorism in general and how to deal with it. And then in the course of that discussion or towards the end of that discussion North made reference to something that Stan, some document that Stan had prepared previously that North was very happy with, that he had taken this document to the President. The President had agreed and had signed the document.

Q Now who was he directing these remarks to -- to you and Charlie Allen both or just you?

A I got the impression it was to me, which surprised me because I had never met the individual before.

Q Mr. North?

A Right. And I jumped to the conclusion that it was the Finding that I had previously worked on because I hadn't worked on other Findings at that time, and that would be the only thing that would be important enough to take to the President and have him sign.

North went on to say that I'm really concerned because I have the only copy and it's in my safe, and I could cross the street tomorrow and get run over by a truck and so no one would ever know. And so if anything ever happens to me, it's here. I want you to know that.

Q Were you still under the impression he was talking to you directly; is that right?

A Right. And I'm a little -- my thoughts at the time -- I mean, if I were alone I would say what are you talking about, but Charlie was there and sometimes if the other individual doesn't know anything about what's being talked about I didn't want to ask those kinds of questions. I don't think it would have been appropriate. But I was stuck by the fact that, one, North didn't know me, and, second, that even if he did he would be mentioning something as sensitive as that in this sort of context.

Q And I gather at this point then you had no knowledge that Charlie Allen would have been aware of this Finding; is that correct?

A I had no knowledge of that.

Q Did North give you any instructions of information to bring back to Mr. Sporkin?

A He asked that -- in fact, his note of appreciation to Stan, in fact, I did. When I got back from the meeting I advised Stan what he had said, and Stan sort of acknowledged that, but I didn't really pursue it with Stan at the time.

Q What do you recall saying to Mr. Sporkin?

A I think I said that Ollie had made reference to a document Stan had prepared. I may have said I think it's the Finding. He indicated his appreciation at that particular time. It was among a number of other things I was talking to him about. We were busy and he really didn't do anything other than acknowledge that he heard me on that particular point.

Later on in discussions with Stan I've asked him whether it could have been anything other than a Finding. Was he working on something else that I was unaware of that could have been the reference to, and Stan has told me that he could not recollect anything else that would be taken to the President.

Q Now this later conversation you are referring to would have occurred sometime after the revelations of November 1986; is that right?

A Right.

Q When you left North's office I gather you didn't discuss the matter with Charles Allen at all; is that right?

A I don't believe I did.

Q In the post-exposure -- let me say post-revelation period in November of 1986 I gather, however, that you did have occasion to talk to Mr. Allen about the Finding; is that right?

A Yes.

Q Why don't we proceed to that period in time?

MS. HUGHES: Could we take a break just for a few minutes?

MR. WOODCOCK: Sure.

(A brief recess was taken.)

BY MR. WOODCOCK: (Resuming)

Q In the post-revelation period -- why don't we call that the period of November 1986? -- I gather you were involved in developing for the Office of General Counsel the chronology of the involvement of the Office of General Counsel in the Iran initiative; is that right?

A I was helping and assisting that, yes.

Q Now why don't you just briefly describe what obligations were visited on you and discharging that responsibility?

A Well, first of all the primary responsibility developed on George Jamison. He's our counsel to the DO.

Q And he, too, is a member of the Office of General Counsel?

A Yes. And the reason is OGC did not know very much about the facts or details and Stan was no longer in the office. He had assumed a Federal judgeship. Casey was not around at that particular time. He was out of town. He was down in Latin America, I believe. And there weren't too many people left who knew much about any of this.

So Jamison was tasked to start off and discuss things with Charlie. He referred to Charlie as being somebody who knew some facts in the Agency. Even within DO the knowledge wasn't extensive at the time.

Q At the time that George Jamison was tasked were you aware that all this was afoot?

A All what?

Q Were you aware that there was an effort under way to begin to explain the Iran initiative?

A Yes, indeed.

Q So what happens thereafter? George Jamison was tasked.

A I was called upon to assist in a couple of different ways.

Q Let me stop you there. Who was directing this? Was this Dave Doherty who is directing George Jamison?

A Yes. The Agency, I believe, was trying to get at the facts of our involvement at a time under -- I think Bob Gates was really in charge and trying to pull things together, and the Office of General Counsel was involved. The IG was involved. DO was involved in trying to get at the facts.

Q Bob Gates at this time is the Director of Central Intelligence; is that right?

A Yes, and it's kind of awkward because Casey's out of town and my recollection is that they sent him a cable or asked questions and part of his response was to talk to Stan Sporkin because he knew an awful lot about this stuff. And since I had worked part of the Findings back then Doherty asked me to see what I could dig up from my files on the subject and also to go talk to Stan, which I did on three different occasions down at the courthouse.

Q And we're dealing with the period, I gather, immediately preceding the delivery of the Director's testimony before the House and Senate Intelligence Committees.

A Right. Actually my participation began when the Attorney General began his investigation and some time prior to that in which he ultimately came out with a press conference in which he talked about the contra connection. But prior to that one of his people, Chuck Cooper, did an investigation and talked to Ollie and he also came out to the Agency and talked to anybody who knew anything about the subject, including Charlie Allen and including me, including Dave Doherty.

Q Let me try and fit this in some kind of a time frame. We have the announcement of North's and Poindexter's departure on November 25, 1986. On the preceding Friday, November 21, the Director gives his testimony before the House and Senate Intelligence Committees. Where in respect to the Director's testimony do you believe that you become aware that or at least that you are tasked to begin to reconstruct the Iranian initiative?

A Well, in my records I note that on the 17th of November Dave Doherty and George Clarke and Ed Dietel and I went to an initial meeting with Stan about the Iranian matter. It was at least then and probably a little earlier than that.

Q Why don't we go to that meeting? I gather all four of you go down to visit.

A Well, before we get to that meeting I have searched the office at OGC to try to find whatever information I could, to search my records, and I had very little because I had destroyed it in connection with Stan's instructions -- my drafts and that sort of thing.

Q Now what are you looking for in your office? Are you just searching your files or OGC generally for anything?

A George Jamison was also searching OGC files and some of our files are down in the Directorate of Operations in his office, but at the main office I was searching for anything, any OGC involvement or any information ~~would~~ about our participation, OGC's involvement in any of this. And I started with my own records, and then I went to my calendars and I went to Stan's calendars and I talked to his secretary.

And we searched his files while he was General Counsel, and there was not very much available -- very little, virtually nothing.

Q Now when you say you spoke to his secretary, that is [redacted] is that correct?

A Yes, who had at that point left the office herself and went to another office.

Q And she's no longer with CIA at all?

A No. She is with CIA but another office, not OGC. And she mentioned to me one of the explanations may be that when Stan left she did a very thorough cleaning job of his files and she got rid of a lot of stuff back then.

Anyway, so we hadn't come up with very much. I knew that I had worked on the Finding, but there was no corroboration to that. So we went down and had this meeting and asked Stan what he recollected. And about the only substantive thing that I took down there to that meeting was his calendar dates and there are several references, primarily in January, but some in November, to meetings with Ollie and meetings at the White House.

And we went over with Stan to try to get his recollection as to what went on, and his memory was not very good on many of the points, but he did recall that there was "nunc pro tunc" Finding even before we had even mentioned anything earlier. So he had recalled that there was such a thing.

Q And I gather that term rung familiar to you; is that correct?

A Right.

Q And did you and he both recognize that as being the Finding that you had worked on in late November of '85?

A Right. It was then just a matter of trying to find it, and I came back from that meeting fairly desperate as to try to find some indication of this Finding. And eventually [redacted] suggested we look at her old mag cards which she had taken with her, half of which had been typed over on her new job, on the chance that it may still remain on the cards. And so another secretary in the office, [redacted], went through and put each of these cards in the machine and then we typed the beginnings of every memo.

This was a humongous job over a year's time, and eventually she found it. But before we get to that, I was sort of in a position of saying that there was this Finding. It's not a figment of my imagination.

Q Was there a group of people who were arguing that such a Finding never existed?

A Well, there was no other corroboration of that anywhere within the Agency, and in fact there was a meeting that I have heard secondhand or thirdhand in preparation for testimony at the White House to which Gates had gone at which a question was asked, I believe, of Poindexter and maybe directly of Ollie North, but maybe not, as to this Finding.

And the word was that there was no such Finding, there was no November Finding.

Q Now were you aware of the concern that perhaps there was no November Finding at the time you were trying to get it run off on these mag cards?

A Well, I got the word back from that meeting. I knew there was a Finding.

Q I understand that you were satisfied yourself that there was a Finding and you were satisfied from talking to Stan Sporkin that he understood there was a Finding, and yet you also felt the need to produce the Finding if you could. And therefore you asked [redacted] to help you in that regard.

A That's right.

Q However, I guess what I'm driving at to you is in the course of that search were you also cognizant that there was, that either the NSC or Poindexter or North or some combination thereof was disputing that there even had been such a Finding?

A Yes. As I just mentioned, someone told Gates directly that there was no such Finding. Also, I had a conversation with Charlie Allen at the time, and I remember calling him and without mentioning that there was a Finding, because I didn't want him predisposed to it, I said apart from the January 17 Finding were there any other Findings that you are aware of in connection with this, to which he rather surprisingly said, yes, there was the mini-Finding in November.

Q And that was the first time you had heard that term; is that correct?

A That was the first time I heard that term. Also that surprised me because I didn't know that he was even aware of it, and he obviously was. He mentioned that after that meeting with Gates that Ollie had called him, Charlie Allen, and said the subject came up and there is no Finding and made it very clear to Charlie that there was no Finding.

And Charlie's remark to me was well, we know there's a Finding but we can't prove it, and until we could find such a thing it is just our word against theirs.

Q Did he tell you how he had responded to North when North had asserted that there was no such thing?

A He didn't say specifically, but I did not get the impression that he quarreled with him about it. He just heard him out and let it go at that.

Q Now when this mag card process was completed I gather that the Finding was then produced; is that right?

A Yes.

Q Did you review it and determine it to be the same Finding you had worked on?

A Yes, I recognized it once I saw a copy of it. And in fact this was found and reported to me like noon and Dave Doherty was going over to attend a meeting of

Gates' group pulling together all of the facts, and I stopped him and made him late for the meeting to make sure he had a copy of this and would take it to that meeting.

Q Now let me back up for a moment and go to the November 17 meeting that you had with Mr. Sporkin. You have already testified that you discussed the nunc pro tunc Finding at that meeting.

A Yes.

Q And you also went over his -- you and the others there went over his calendar for January 1986; is that right?

A Yes.

Q Now was there any discussion that you can recall about his involvement in the subsequent Findings that ultimately resulted in what we now know to be the January 17 Finding?

A There was some discussion. As a matter of fact, I did find within the office a couple of documents on a different typewriter on two draft Findings of the 2nd and 3rd of January. And I was not -- in late December '85 I went on leave and then I had to take sick leave and I was out of the office virtually the entire month of January, and so it was surprising to me that there would be anything on my typewriter, but I was searching everything, and I surfaced two drafts and they turned out to be drafts of Iran Findings that were prepared by my staff in my absence -- Dave Roseman, my deputy, and one of my subordinates, Gary Cole -- and we did indeed take those drafts down and discussed them with Stan.

One of those drafts also had a cover sheet on it saying hand-carried by Stan Sporkin to Ollie North, I believe on 3 January.

Q So by the time of your meeting with Mr. Sporkin on the 17th of November you have already uncovered the January 2 and 3 versions; is that right?

A Right.

Q Was that the first you had heard of those?

A Yes. I had not heard that there was a January 17 Finding.

Q Was there any discussion about a meeting that Mr. Sporkin had had with Colonel North and others in approximately mid-January to discuss the January 17 Finding?

A I recall that Stan mentioned there was a meeting. I guess Ollie was at the meeting. But it was a fairly significant meeting at which the Attorney General was present and Poindexter was present, and I'm not sure who else -- Ollie, Stan. The Secretary of Defense was not present, but they were to float, to discuss the Finding. They were to float it at that meeting.

Q Did you discuss his participation the meeting in which Richard Secord was present?

A No.

Q And that would be true of your November 17 meeting?

A If Secord had been present at that meeting, I didn't know it at the time. There was no mention of that.

Q Do you recall or have you discussed with any member of your staff their participation in any of these meetings in January that Mr. Sporkin was at?

A Certainly it wasn't Dave Roseman or Gary Cole or myself. The only other possibility is if there were others in our office. Aside from Stan would be George Clarke or George Jamison.

Q Let me --

A I do know that they were involved in much of the January work on the January 17 Finding.

Q So either George Jamison or George Clarke?

A Yes.

Q Let me put the same question to you in a little different fashion. The testimony of Richard Secord is that sometime shortly before January 17 he went to a meeting, and I believe he places at the meeting Clair George and Stanley Sporkin and I think possibly [redacted] and he also places, in addition to Stan Sporkin, a person whom he believed to be a CIA lawyer from Sporkin's staff. Other than George Jamison or George Clarke, do you have any idea who that might be?

A No. If I could amplify on that answer there, there is a unit in the Directorate of Operations [redacted] who interfaces frequently between our office and DO components. And some of their personnel have legal experience, so that's another possibility.

Q Who's in charge of that office?

A Right now it's [redacted]

Q Do you recall who would have been the head of that division back in January 1986?

MS. HUGHES: Off the record.

(A discussion was held off the record.)

BY MR. WOODCOCK: (Resuming)

Q Do you recall who would have been the head of that office in January of 1986?

A I believe it was [redacted] Sometimes personnel from that office are mistaken for OGC personnel.

Q Let me turn now, if I might, to what I think and what you probably hope will be the last area that we

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cover today. There was a point, I gather, in the ongoing engagement with Mr. Ghorbanifar where Charles Allen found the need to seek authorization for the tape recordings that he was making of Mr. Ghorbanifar; is that correct?

A That is correct.

Q And I gather that you yourself were not personally involved in giving him that authorization; is that right?

A I don't believe I was. I do know that Gary Cole, who worked for me, was.

Q Could you tell us what you know of the request for authorization and the granting of authorization, as you know it from your standpoint as Mr. Cole's superior?

A I believe that sometime, I believe in July of '86, Charlie came to our unit and talked to Gary Cole, and said that he had wanted to -- was contemplated or was involved in conversations regarding the release of the hostages on his office phone and he asked whether there was any problem, legal problem, in doing so.

And he wanted to make a record of these conversations and record them so he could go back and verify exactly what was said. Cole advised him that such recordings would be legal under the relevant statutes, that they would be consensual, one party's consent being sufficient, but that there was an Agency regulation that

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required that before any such recordings were made on Agency phones that approval would have to be obtained from an appropriate Deputy Director and it had to be done for legitimate operational or security purposes.

So Gary suggested that Charlie obtain such approval and in fact drafted a request for such approval, which Charlie obtained.

Q That is Gary Cole drafted the proposed approval?

A Right -- the request, which embodied the approval and it was approved by the DDO at the time.

Q Now that, I gather, did not extend to any phone calls that had been taped prior to that time; is that correct?

A Well, I have looked at the form and it doesn't speak in terms of being purely prospective. That really doesn't have a time element in it, but I understand from Gary that his impression was that these were calls that would be made in the future and he had no knowledge at the time the request was made of any prior telephone calls that had been recorded.

Q Let me put the question a little differently. The Agency has a regulation that prohibits this kind of telephone taping without prior approval; is that correct?

A Yes.

Q Where that taping does occur without prior approval, is there not a mechanism for providing retroactive ratification in a sense for it?

A Not really. The way we handled that regulation in the past is once it was discovered or once there had been such tapings going on, the thing to do was to get approval for any future tapings, and that has generally been considered the end of it. If in fact such approval was worth commenting on, there had been other tapings not involving [illegible] where they were terminated because senior management did not wish to approve such tapings.

And I do know that this regulation is knowledgeable to some people but to many people it's buried away in Agency regulations. The DDO is very familiar with it because they have occasion to make these sorts of recordings, whereas Charlie Allen was not really in the DDO.

Q He's not an operational officer; is that right?

A That's right.

Q However, let me put a hypothetical to you and if you can field it go ahead. Let's assume that unauthorized taping has occurred. However, it has occurred in circumstances where the tapes have maintained a value, an intelligence value; therefore, it becomes important to gain some kind of legal standing for these unauthorized tapings. Isn't there a way to gain some kind of legal standing for them?

A Do you mean something like a retroactive approval?

Q Right.

A Well, one would think, without researching the matter, that was the case, but I know in researching Title III, the legislative history which specifically argues against retroactively validating a consensual recording --

Q This kind of recording is not a Title III problem, really, is it?

A No, it's not. But there is a sense of retroactivity in that.

Q The reason I asked this is that when I interviewed Gary Cole he suggested that there was some kind of a process whereby you notified the Intelligence Oversight Board.

A Whenever there is -- if we violate anything, an Executive Order or procedures or regulations of this nature, and it is considered sufficiently serious we will notify the Intelligence Oversight Board via a regular report that the General Counsel makes to that particular

Board. And, as a matter of fact, the extent of our obligation to that Board goes beyond violations. Anything that raises questions. It's a much broader standard than the one we have with respect, for instance, to our oversight intelligence committees.

So something like this we would normally advise the IOB about either in a report or orally, something like that, and with the admonition that we have looked into it and we have taken care of it. We either obtained proper approval so we can continue it or stopped it. That is our practice in those kinds of cases.

Q I see. Now this is maybe a walk into real esoterica, but if you have a tape that has been made in this kind of a manner and yet it remains a valuable thing in your intelligence construct, what does it status become? Are you prohibited from using it or can you still use it, or how does that work?

A Well, generally if this were a non-consensual problem and there was no consent and this was arguably a Fourth Amendment type problem, what we would do it basically constructively destroy it. We would impound it and we would not permit intelligence use to be made out of it. We would not physically destroy it because then questions might be raised as to why we destroyed it.

So we would seal it, put it away, and if anybody raised questions it would always be there. But that is our general way to proceed. In this particular case I don't believe we had any knowledge at that time that there had been prior recordings.

Q Well, I think that concludes my questioning, unless you have any random thoughts you want to put down on the record.

A I do have a couple.

Q Why don't you go ahead?

A One is that when I went through the meetings with Stan, when we were getting all the facts, Dave Doherty asked me on the 20th of November -- and this is the day before Director Casey's testimony -- to go back and check one fact with Stan, and that had to do with whether there were missiles or arms on the first or original shipment.

And I had mentioned to Dave that I had already gone over that with Stan and that was his opinion, but he nevertheless wanted me to do it one more time to make absolutely clear on that point. And the reason was, I think, in part because the testimony -- and I hadn't seen it personally -- that the draft testimony had said something to the effect that nobody knew about arms deliveries until January. And if we knew about them in November that would be an incorrect statement.

Now this is at the time -- well, I went back. I went back to Stan and discussed the matter with him and he was very vehement in saying yes, it was arms and we can't be saying anything other than that. And you've got to go back and have him change this thing. If you can't do it, tell me about it and I will call Casey up and it will be changed. It's got to be changed.

And so I returned that evening, late that evening -- it was like 9:00 -- before the testimony the next day and mentioned this, brought this to the attention of Dave Doherty and he immediately called Casey and said Stan says this and he's absolutely clear on it, and so Casey said we've got to change it.

And he advised Dave to get in touch with a guy named McCullough.

Q Jim McCullough?

A Right, and get that done. I think that is helpful in several respects. It shows that we were doing our best to make an accurate record.

Q Under difficult circumstances.

A Under difficult circumstances, and we had no problem doing so when it came time to do it.

Q I gather, then, that you would dispute the now-famous story that the correction was really made at the behest of the State Department.

A Well, I don't know whether I would dispute that. I have no knowledge to dispute it, but there may have been another reason why it was changed or it might have been simultaneous or something like that.

Q At any rate, from your perspective, irrespective of the involvement of the State Department, the CIA had already started the process, the means by which that statement was going to be corrected; is that right?

A Right. And I recall in my conversation with Stan that the earlier draft Finding, that doesn't say missiles but it certainly talks about munitions, military equipment, that sort of thing, and that is sort of contemporaneous confirmation of that.

There was an idea, to be fair, we didn't have all the facts and there were a lot of rumors -- not rumors, but there was a lot of speculation, sort of suggested things, and I know that the Agency tried to just make assertions on that on which there was some firm foundation for speculating on a number of different things.

Q Wait a minute. You're losing me in time here. Are we back in November of '85?

A No. We're back in '86 when we're trying to reconstruct the record. And there is some evidence of this and some evidence of that and try to limit. I know an effort was made to try to limit that testimony to what we knew about. The problem with that is that we knew very little. And if you limited it to what we had firm knowledge on, we weren't saying much about anything.

Q Then you are liable to the charge that you are not revealing things.

A Also, Casey was out of the country again. Basically the Gates group got together and then in frustration I think they cabled him and said come back early because we're having trouble getting this all together.

Q Now who has really got the knowledge in advising, in the absence of Casey, what is happening or what has happened in this Iranian initiative?

A Within the Agency?

Q Right.

A Well, the person probably with the most knowledge is Charlie Allen.

Q And where is George Cave? Is he involved with this?

A Well, he's around.

Q Is he helping, though, to your knowledge in providing information on this?

A As far as I know, but Charlie is the

knowledgeable person, plus John McMahon, who is no longer around. He's out on the west coast, and there were efforts made to talk with him long distance and eventually he did come back.

Q Now do you know whether McMahon was ever questioned on the point of what this cargo was?

A I seem to recall that he did not recall it as military equipment. I think he thought it was oil-drilling equipment.

Q Now is that in your discussions with him or is that through someone else?

A Well, I've seen some documentation also. I mean, there is some indication that he would have thought a Finding necessary even if there had been oil-drilling equipment.

One thing also I recall on the nature of that first shipment, there are a number of different versions of what precisely went on and who approved what at what time. I was involved in another aspect a little bit later and I helped the IG in getting their chrono together as to these events, and so I participated in trying to reconcile these various versions as to what went on that one weekend of that shipment.

Q I see. So you assisted the IG, even following the delivery of Director Casey's testimony on the 21st of

November?

A Right. We had developed in house in our office, in OGC, a chronology which is very sparse, but it is what we knew at the time. The Director ordered the DO and IG and Charlie Allen and OGC to get together and come up with a complete chronology.

Q Were you involved at all in getting the information from [redacted] as to what his involvement was in getting landing rights and so forth?

A No, but I did see some contemporaneous cable traffic relating to that.

Q That portion of the IG's investigation, I will tell you for your information and I will ask you to comment on this if it rings a bell, contains a reference from [redacted] to the effect that on November 23 he had a meeting with General Secord [redacted] and that General Secord advised him both of the purpose of the mission and of the contents of the airplane that was involved, which he said was HAWK missiles.

According to [redacted] he set that information down in a cable and cabled it back, cabled it back to CIA. Do you recall coming across any information like that?

A No. But I do recall there is information that the pilot of the plane described it as military equipment somewhere along the route, and you are probably aware of that.

Q Right. That's a cable that was generated while he was over [redacted]. Rhonda is still looking for the cable, I hope, from [redacted]

A It seemed to me -- and I don't know if I saw documents but I heard from somebody along the way that the pilot had seen the cargo and that it was missiles. I guess that is when it was being loaded.

Q Yes, but it had to be unloaded from a 747 and onto a 707.

A Well, they had -- there was a U.S. flag carrier -- I mean an aircraft.

Q U.S.-registered aircraft?

A Right. And when he found out where he was going and what he was taking he figured that wasn't the most sensible thing to do, to be shot out of the sky regardless of the nature of the cargo. But then they transferred it onto a non-U.S.-registered aircraft.

That's all I have.

MR. WOODCOCK: Well, we appreciate your time and patience and we will have an opportunity for you to take a look at the transcript and review it and make sure that it is accurate as you feel you have given your testimony. We appreciate your time.

THE WITNESS: Thank you.

(Whereupon, at 4:25 p.m., the taking of the instant deposition ceased.)

____

Signature of the Witness

Subscribed and Sworn to before me this ________ day of

____________________________, 1987.

____

Notary Public

My Commission Expires: ______________________________

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CERTIFICATE OF REPORTER

I, Raymond R. Heer III, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

Raymond R. Heer III
NOTARY PUBLIC
DISTRICT OF COLUMBIA

My Commission expires: May 31, 1989

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11/26/85

Director of Central Intelligence
Washington, D.C. 20505

26 NOV 85

26 November 1985

MEMORANDUM FOR: Vice Admiral John M. Poindexter, USN
Deputy Assistant to the President
for National Security Affairs

SUBJECT: Presidential Finding on Middle East

Pursuant to our conversation this should go to the President for his signature and should not be passed around in any hands below our level.

WJCasey
William J. Casey

Attachment:
As stated

Partially Declassified/Released on 26 Jul 87
under provisions of E.O. 12356
by B. Reger, National Security Council

CL BY 0008074
RVW OADR

~~TOP SECRET~~ [redacted]

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Finding Pursuant to Section 662 of the Foreign Assistance Act of 1961, As Amended, Concerning Operations Undertaken by the Central Intelligence Agency in Foreign Countries, Other Than Those Intended Solely for the Purpose of Intelligence Collection

I have been briefed on the efforts being made by private parties to obtain the release of Americans held hostage in the Middle East, and hereby find that the following operations in foreign countries (including all support necessary to such operations) are important to the national security of the United States. Because of the extreme sensitivity of these operations, in the exercise of the President's constitutional authorities, I direct the Director of Central Intelligence not to brief the Congress of the United States, as provided for in Section 501 of the National Security Act of 1947, as amended, until such time as I may direct otherwise.

SCOPE	DESCRIPTION
Hostage Rescue - Middle East	The provision of assistance by the Central Intelligence Agency to private parties in their attempt to obtain the release of Americans held hostage in the Middle East. Such assistance is to include the provision of transportation, communications, and other necessary support. As part of these efforts certain foreign materiel and munitions may be provided to the Government of Iran which is taking steps to facilitate the release of the American hostages. All prior actions taken by U.S. Government officials in furtherance of this effort are hereby ratified.

The White House
Washington, D.C.

Date:

Partially Declassified/Released on 26 11 87
under provisions of E.O. 12356
by B. Reger, National Security Council

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SENATE SELECT COMMITTEE
ON SECRET MILITARY ASSISTANCE
TO IRAN AND THE NICARAGUAN OPPOSITION

- - - - - - - - - - - - - - - -x

In the Matter of the Oral :

Deposition of :

Don Marostica :

- - - - - - - - - - - - - - - -x

Washington, D.C.

Wednesday, May 20, 1987

ORAL DEPOSITION OF

DON MAROSTICA

was called for examination by the Associate Counsel for the Senate Select Committee on Military Assistance to Iran and the Nicaraguan Opposition, pursuant to agreement, in room 901, Hart Senate Office Building, Washington, D.C., commencing at 2:15 p.m, when were present:

4173

Partially Declassified/Released on 1-11-88
under provisions of E.O. 12356
by N. Menan, National Security Council

UNCLASSIFIED [redacted] no. 2A of 3 COPIES

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APPEARANCES:

On behalf of the Senate Select Committee:

[illegible]
[illegible]
Senate Select Committee on Secret Military
Assistance to Iran and the Nicaraguan
Opposition
[illegible]
[illegible] Office Building
Washington, D.C.

On behalf of the House Select Committee:

[illegible], ESQ.
[illegible]
House Select Committee to Investigate
Covert Arms Transactions with Iran
Cannon House Office Building
Washington, D.C.

On behalf of the Deponent:

C. Gordon Dickinson, Esq.
C. Gordon Dickinson & Associate
P.O. Box [illegible]
So. Frontage Road [illegible]
Sterling, CO 80751

ALSO PRESENT:

SENATOR PAUL TRIBLE

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PROCEEDING

(2:15 p.m

Whereupon,

DON MAROSTICA

was called as a witness and, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HOLMES:

Q Would you please state your name?

A Yes, Don Marostica.

Q Mr. Marostica, this is a deposition taken on behalf of the U. S. Senate Select Committee and the House Select Committe with regard to the Iranian Nicaraguan Covert Arms dealing. And we are particularly inquiring about General Richard Secord and Albert Hakim.

Are you familiar with either of those individuals?

A Yes, I am familiar with both of those individuals.

Q I wonder if you could tell me as a background matter what your general business is, the place in which you engage in that business?

A Yes, I have -- wear two hats, I am a securities investment broker, independent contractor with Integrated Resources Equity Corporation out of New York. Any my other hat is a private investor and entrepreneur, located in Sterling, Colorado.

Q Is that where you make your residence?

A Yes, I live in Sterling, Colorado.

Q How did you meet Richard Secord, for the first time?

A I was introduced to Richard Secord by way of Larry Royer, on approximately -- the end of April 1986. Larry Royer was a business partner in another venture that I was involved with in Sterling, Colorado, a commercial fish food manufacturing business.

Q And it was sometime after that that you were contacted by an investigator from the House, a Mr. Remstein?

A Yes, Mr. Remstein contacted me about two weeks ago.

Q And you indicated at that time that you would be willing to appear here without subpoena, is that correct?

A Yes, I am appearing voluntarily and volunteering all the records that I have.

Q The records that we have are the sum total of the records --

A Yes, there are no other records, besides what we have here today.

Q That is any records with regard to either Secord or Hakim?

A Yes, all records regarding Secord and Hakim are here.

Q What was the business that you had with Mr. Larry Royer?

A Originally, Larry Royer was a partner, about a 6 percent stockholder in a company in Sterling, that manufactured commercial fish food products from local grain products.

Q What was the name of that business?

A First American Sterling Mills.

Q And your role in the business?

A Chairman of the Board, and I owned approximately 12 percent of the stock in that business.

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Q And what was the period of time that you were involved with Larry Royer in that business?

A Well, Larry Royer still is on the board of directors of that business. First American Sterling Mills is a Colorado corporation.

Q And you are no longer associated with it?

A Well, I am still associated with the corporation, we have sold most of our equipment. The corporation is still in place, but we have sold the equipment to another concern in Colorado, and they are going on with the manufacturing process.

Q When they sold the equipment, does that mean that they distributed the assets of the corporation?

A All of the assets of the corporation were distributed and the loans paid back to the Sterling Urban Renewal Authority, and that sort of thing.

Q So, the fish food business is --

A Is no longer in existence, right.

Q When did it cease its operation?

A Approximately, March -- I'm sorry, August of 1986.

Q How was it that you came to first meet Richard

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Secord?

A The State Commerce Department received a package from American Arms -- Bill Goff, Senior and Junior, were looking to relocate their manufacturing plant to Colorado. And the State Commerce Department sent the business package to our local Chamber of Commerce and the local Chamber contacted me, and asked me to look at the proposal, see if there was a way that we could bring that manufacturing plant to Sterling, Colorado.

So, I looked it over, went back to Salt Lake, visited with the Goffs, and brought back all of their business plans and pictures, and some of their contacts they had -- arms dealers throughout the West. And met Larry Royer the next day, he was in town doing business with the First American Sterling Mills. And I showed him the package, and Larry Royer said that he had a friend that would be very interested in it.

Q And when was this?

A That was probably around the first week of April, or so.

Q Of 1986?

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A Of 1986, correct.

Q And he named his friend to you as Richard Secord?

A No, I didn't know who the friend -- he didn't give me a name at that time. Then approximately the third week in April, on a Tuesday or Wednesday, Larry called me and said that he was in Salt Lake with a Richard Secord, wanted to meet me at the airport, at the Clarion, in Denver, to discuss the American arms proposal.

And I met them then that day at 7:00 o'clock in the morning.

Q Who was present at that meeting?

A Larry Royer, Richard Secord and myself.

Q And that was in Denver?

A That was in Denver.

Q Did you bring with you the documents that you had obtained from the Goffs?

A I had my file that day, I don't know what exactly was in it at that time, I think probably business plans, some brochures and that type of thing, was brought to that meeting, yes.

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Q Do you have any documents here with you today that reflect the content of that meeting?

A There is a document that was brought to the meeting and we used that as an outline to discuss American arms.

MR. HOLMES: I'm going to mark in red on these documents so that the record will indicate whether or not that is the original. And I am going to hand you what is marked and ask you if you can identify that document?

THE WITNESS: (Perusing document) Yes, this is the document that was brought to the meeting, either by Larry Royer, or Richard Secord, and we used this as our basis for discussion for that meeting.

(Whereupon, the document was marked for identification as Exhibit No. 1)

BY MR. HOLMES:

Q And this was a meeting in a motel room?

A No, it was in the Clarion -- we have a Clarion suite for business meetings, there at the Clarion Hotel.

Q How long did the meeting take?

A We were in there most of the morning, I think that Larry and Dick -- Richard Secord had a flight out right after lunch, so we were in that meeting the entire time, from 7:00 o'clock.

Q And was this document No. 1 the primary source of discussion there at that meeting?

A Well, primarily we discussed manufacturing 4,000 receivers as collector's items, we spent a lot of time on that, to break that down and the profitability. Actually, it was in two phases, that was phase one, to get the receivers manufactured prior to the signing by the President, that no longer allowed the sale of automatic firearms to private citizens. So, we were trying to beat a deadline, so we probably talked about that phase one, being the government deadline at that meeting.

Q Now, this document No. 1 is a handwritten document, titled American Arms Project, is that correct?

A That's correct.

Q And I don't believe that you answered me directly when I asked if this was the document that served as the discussion basis for that meeting?

A Yes, that is the document for the basis of that

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discussion that morning.

Q And the numbers that you have just mentioned to us, the 4,000 arms before a government deadline, is referred to in this document under Phase One on page 1?

A That's correct, on page 1.

Q And the document goes on to delineate a per unit price --

A Of $1800 for 4,000 units.

Q Of $1800 for 4,000 units, and that is the selling price, is that correct?

A Correct.

Q For a total gross income of $7.2 million?

A That's correct.

Q The document goes on to refer to a cost per unit of $250 times 4,000 units, for a total cost of $1 million?

A That's correct.

Q Was the figure of a million dollars discussed as to where it was to come from?

A Basically, I understood at that meeting that it was going to come from Richard Secord himself.

Q Did you understand that from Mr. Secord?

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A Yes, the intent of that meeting -- I knew that it wasn't going to come from Larry Moyer, so that it was going to come by access of Richard Secord, yes.

Q And was the figure $1 million the determinant of how many units were going to be made?

A Yes. In other words if the cost per unit was $250, a thousand times that $250 is $1 million figure.

Q What I am getting at, you were reasoning backward from the availability of $1 million, instead of forwards from the desirability of having the 4,000 --

A Exactly. In other words, we needed $1 million in order to produce 4,000 completed units.

Q You had a million, so that is what you were going to --

A That's correct.

Q The document on page one continues to show a margin of $6.2 million, that would have been the margin of profit?

A That's correct.

Q And then there in a reference to payback, $200,000 and that number is subtracted from $6.2 million to get $6 million, correct?

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A Yes, that is correct, that is what the document [illegible] don't recall the $200,000 payback, what that is [illegible]

Q All right. Then there is a notation of 30 percent to American Arms --

A Right, of that --

Q -- and the calculation as $1.8 million?

A That's correct, that would be the 30 percent of [illegible]

Q And this figure to the left of $4.2 million, that is the remainder of the process of subtracting $1.8 million from the $6 million?

A That's correct.

Q And the notation above the $4.2 million figure is Don, Richard, Larry?

A That's split --

Q That is you, Richard Secord and Larry Royer?

A That's correct.

Q Referring now to page 2 of Exhibit No. 1, there is a notation "Dick, Capital"?

A What we are doing there, you will see above it says "assignments", and the partnership -- we have broken

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the partnership down to everybody's assignment. My assignment was to negotiate and start into process Phase One and Two of manufacturing the collectors firearms and also moving American Arms to Colorado.

It has "Dick", which refers to Richard Secord as furnishing the capital for this venture, and Larry needed to get the extra 2,000 receivers made before the deadline. There was a rush for him to find manufacturing plents to get that finished.

Q The balance of page 2 refers to the second phase of the operation, is that correct?

A Correct.

Q And that is the topic of particular interest to you, in that it involved moving the site to Northeastern Colorado, where you were engaged in industrial development?

A Correct.

Q The last page of Exhibit No. 1 refers to projection of sales, first year, correct?

A Correct.

Q It says "No domestic sales predicted", and on the next line "1,000 to 1500 Saudi and Gulf State", and

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"4,000 Contra". My question is when was the first time you discussed sales to the Contras?

A Well, basically at that meeting -- we didn't spend very much time on this phase and projections, but I see it on the graph at that meeting. And they basically -- the notes here, that was going to be the efforts of Stanford Technology, was to begin to sell the M-180 units off-shore, rather than in the United States.

I was primarily concerned with the collectors items.

Q The M-180 --

A That is the basically, patented firearm, correct.

Q And the collector item is distinguished from that by gold or --

A Yes, special woods, inlaids, that kind of thing.

Q So it was discussed there that Stanford Technology was going to handle the off-shore sale of the production line model?

A Yes, we didn't talk about that at that time, the off-shore, that came at a later meeting, when they talked about manufacturing off shore. What they were talking about was setting up the corporation off-shore, tax advantages in doing that. Having them manufacture them in the U.S., but the corporation off-shore.

Q Now, there is a notation on this last page that says, "Don, Larry, Rich and Albert".

A Right.

Q I gather that that is you, Royer, Secord, and who is Albert?

A Well, it must be Albert Hakim, but he was never brought up in the first meeting. We didn't get this far in talking about the different businesses. I didn't know that Albert was even involved, until a later meeting.

Q Did you discuss attacking the Philippines? It says "attack Philippines".

A Well, I discussed with Larry, before this -- Larry was saying that he had a market for farm equipment and in our area there were a number of equipment dealers going out of business and you could purchase John Deere farm equipment, in some cases 30 cents on the dollar. And I had mentioned that to Larry before.

But we didn't talk about that at this first meeting. In fact, this was the only time -- this was never brought up again, using the farm equipment. And they wanted to complete the plans, but I don't know what "attack Philippines" is, what they are talking about.

Q Philippine market?

A The Philippine market for the equipment, exactly. Richard must have had a contact for that, we didn't talk about [illegible] in that first meeting.

Q So the reference to the John Deere equipment and attacking the Philippines was something that had previously been discussed on the telephone, or --

A Well, Larry and I had talked about contacts that Larry had himself, selling John Deere equipment outside the U.S.

Q I see, very well.

MR. TRIBBLE: Counsel, may I ask a question regarding that document?

MR. HOLMES: Would you like to --

MR. TRIBBLE: Yes, please. Do you know who prepared Document A, or Document No. 1?

THE WITNESS: No, that was brought to our meeting.

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MR. TRIBBLE: And that was brought by whom?

THE WITNESS: I am not sure who brought that to the meeting, I think that Larry brought the document in, because Dick was on the telephone -- it was a little late and it seems like I was reviewing that, before Richard came into the meeting.

MR. TRIBBLE: But this is the working paper used by Secord, Royer and yourself, during the course of that first meeting?

THE WITNESS: That's correct.

MR. TRIBBLE: And each of you referred to this document, and it was on the basis of this document that --

THE WITNESS: We were sitting around the coffee table, and that was in the middle of the table and we were going down through those phases and discussing that document.

MR. TRIBBLE: You indicated that you understood the $1 million would come from Secord. Was that understanding based on a conversation that you had with Secord and Royer that day?

THE WITNESS: Really, that day, and also

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previous to that, when Larry called me a couple days before and said that his friend would be able to furnish the million dollars for this American Arms project.

MR. TRIBBLE: And that earlier conversation was confirmed by your subsequent conversations at this meeting with Mr. Secord?

THE WITNESS: Sure, because you can see on that document, Senator, that in order to produce those units, you had to have that much money.

MR. TRIBBLE: The starting assumption, as counsel pointed out, was the million dollars in hand?

THE WITNESS: That's correct.

MR. TRIBBLE: For this enterprise?

THE WITNESS: That's correct.

MR. TRIBBLE: And Dick's contribution to this enterprise, again, as underscored by the notation on page 2 of this Exhibit 1, which says "capital"?

THE WITNESS: Yes, under the assignments there it says "Dick-Capital".

MR. TRIBBLE: Now, tell me what kind of arms are contemplated by this enterprise. What kind of guns are we talking about?

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THE WITNESS: Well, basically, the first 6,000 units were going to be all collectors items, which consisted of semi-automatic and automatic firearms. And they were going to be collectors items based upon the bill that was going to be signed by President Reagan.

MR. TRIBBLE: Now, that bill would make it illegal to possess these items in the United States?

THE WITNESS: Well, no, it wouldn't be illegal to possess them, but you couldn't manufacture anymore for private citizens use, is the way I understood that.

(Discussion off the record)

MR. TRIBBLE: Back on the record.

BY MR. HOLMES:

Q So, these are, again, automatic and semi-automatic firearms. To what purpose were these firearms put?

A Would you ask that question another way?

Q Yes, what is the use of these firearms?

A Well, basically an automatic --

Q I mean, these don't look like the kind of firearms that one sees in their home.

Q Basically, the units that had been sold prior to that, a lot of them were collectors items, gun dealers in the U.S. were selling them to individuals who had a license to own an automatic, and they had been sold numerous -- 10,000 units had been sold to police departments in the United States, prisons. They had been manufacturing these for many years.

MR. HOLMES: Off the record.

(Discussion off the record)

BY MR. HOLMES:

Q Okay, after this meeting of April 1986, did you have further contact with Mr. Hakim at anytime?

A I originally met Albert Hakim in Virginia, and that was in June of 1986. We met at the Sheraton Inn at Tysons Corner, with Richard Secord, Albert Hakim, Larry Royer. That was an evening meeting, I flew in late in the afternoon, left every early the next morning.

Q What day was that in June?

A June 23rd.

Q And at that meeting did you discuss the progress of the Tri-American --

A Well, at that meeting I was introduced to Albert Hakim, and what Albert asked me to do -- they

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brought in a blackboard into the room and asked me to explain the businesses that I had presented to Larry Royer and Richard Secord.

So, we started with the American Arms, then moved into CENATECH International and the Seattle Wood Project, and we also talked about the pharmaceutical thing.

Q So by this time there were several deals?

A There were a number of presentations and business plans that I reviewed. I had actually reviewed numerous more plans, and I was throwing most of them out because they didn't seem like good business plans, and it got down to these four.

Q And at whose request had you reviewed other business plans?

A Larry Royer said to me that through their investors, and contacts that they had around the world, that they would be interested in looking at other American ventures.

Q Who is the "they" that he was referring to?

A He was talking about European investors and Middle Eastern investors.

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Q When you say "through their investors", was it Royer or --

A No, I don't think it was Royer's investors, I think he was talking about Richard Secord's investors. And then at this June 23rd meeting, I realized that maybe Albert Hakim was also part of his investors, but I didn't know him before that time.

Q I see. And by that time you had culled out various business opportunities?

A That's correct.

Q What business opportunities had you examined, but did not survive your scrunity?

A Well, there were a number of business enterprises that the Chamber of Commerce was presenting, if I remember, there was a camper manufacturing business. We looked at a company that makes trash containers, I just don't recall some of the other ones, but there were numerous -- our Chamber was receiving every day people out there with some low interest money were sending these projects to our Chamber.

Q Just as matter of background on the state of your Chamber of Commerce at that time, I gather that

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there was low interest loan money in Northeastern Colorado at that time?

A Yes, Northeastern Colorado was in a very depressed state in 1984-85, and the state had appropriated certain amounts of monies to bring in industrial and manufacturing to put individuals to work. And they knew that I was interested in industrial development, and were forwarding all of those state packages to myself.

Q So there was low interest money available by government subsidies --

A Government subsidies, bonds -- industrial bond issues, numerous public monies.

Q I see. And by the June 23rd meeting, these had been reduced by you to four potential projects?

A Well, basically, the wood situation wasn't a project that I reviewed very much, it was one that was brought to me through Richard -- I'm sorry, through Dick Fincke at CERETECH International.

And as we were talking about the business structure of CERETECH International, then that project didn't come through the Chamber, the rest of them had.

Q All right, I am going to recap these project, if I might, and see if I am up to where we are. Those projects as they shook out were the American Arms, Inc. project?

A Correct.

Q The CERETECH International, Inc. project?

A That's correct.

Q The Tri-Red Cedar Associates, Inc. project?

A Yes, and that is the same as Quinalt --

Q As the Quinalt Indian Reservation Wood Project?

A Correct.

Q And the Bio-Fine Pharmaceutical, Inc. project?

A That's correct.

Q Now, I am going to, for the sake of examination, move along one line at a time, so that we are not discussing all four projects at once as we go through time. And I am going to move forward along the American Arms, Inc. project line, all right?

A That's fine.

Q Now, did there come a time in July, when you met again with Albert Hakim?

A I think there -- yes, in July, but prior -- in

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early July, I met with Albert Hakim and Willard Zucker in Seattle, Washington, July 2nd and July 3rd.

Q All right, and who else was present at that meeting?

A Well, Richard Secord, Larry Royer, Willard Zucker, Albert Hakim were at that meeting, and then at various times, Dick Ficke from CERETECH International, and his group was there, as well as individuals that represented the "wood" projects.

Q So that was a general review of what projects were on the table?

A Yes, I was asked by Albert Hakim to review all of those projects in detail with Willard Zucker.

Q And did he introduce you to Willard Zucker at that time?

A Yes, I was introduced to Willard Zucker and Willard Zucker was -- he said that Willard Zucker was their legal representative.

Q Whose legal representative did he introduce him as?

A Albert Hakim and Richard Secord.

Q And what projects did you review for Willard

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Zucker?

A The American Arms project, CERETECH International, the Quinalt Wood project, and also the pharmaceutical company.

Q Bio-Fine?

A Bio-Fine, yes.

Q As to the American Arms project, what was the progress on that project at that time?

A Well, we funded -- on May 16th we funded American Arms with $60,000 as a loan, and by this meeting in July, we talked about how American Arms was going to pay the loan back to us.

Q Did you meet again later on in July with Mr. Hakim?

A Yes, we met in Washington, D. C. on July 17th, at Stanford Technology.

Q And who was present at that meeting?

A That meeting was Richard Secord, Albert Hakim, Larry Royer, and I also met Robert Sutton at that time.

Q Dutton?

A I'm sorry, Dutton.

Q So, it was Secord, Dutton, Hakim, Royer and

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yourself?

A Yes, that is correct.

MR. HOLMES: For the record, I am using the original of this document, I have numbered it in red No. 2, pursuant to an agreement with counsel that all of the originals that we so mark will be copied and the originals will be given to you and the copies will be retained for our records.

(Whereupon, the document was marked for identification as Exhibit No. 2)

BY MR. HOLMES:

Q I am handing you what is marked as Exhibit No. 2 to this deposition, a document entitled Memorandum, two-pages. Could you tell me if you have ever seen that document before?

A (Perusing document) Yes, that memorandum was given to me by Albert Hakim.

Q At the July 17th meeting?

A That was at the July 17th meeting.

Q And does this memo recap again the four projects under discussion at that time?

A Yes, it does.

Q There is a reference here to an Arab Development Corporation, had you up until this time heard of the Arab Development Corporation?

A I heard of the Arab Development Corporation back when the original $150,000 was wired to the Tri-American Arms partnership, and then this was the second time that I heard that name.

Q All right. How did you come to hear of the Arab Development Arms Corporation in connection with the wiring of the original $150,000?

A The bank officer that was dealing with the incoming wire spoke with their correspondent bank, and told me that it was coming by way of Arab Development Corporation.

(Whereupon, the document was marked for identification as Exhibit No. 3)

BY MR. HOLMES:

Q I am handing you what has been marked as Exhibit No. 3 to this deposition, it is a Credit Suisse Debit device, debiting an account named Alvin Values

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Corporation, referring Arab Development Corporation. I take it that you, yourself, haven't seen this document before?

A (Perusing document) That's correct, I haven't seen that document before.

Q But it would have been this date, May 16, 1986, that the $150,000 was wired into your account?

A Yes, that is correct, May 16th.

Q And the account referenced on this document is the Commercial Bank of Sterling, Sterling, Colorado, with an account number, is that right?

A That's correct.

Q And is this the bank and the account number of your account at that time?

A No, that is the actual bank account number, that is not Tri-American Arms' bank account number.

Q Okay, this other number, 013250, is the Tri-American Arms --

A That is the Tri-American Arms account number.

Q The correspondent bank that you mentioned a moment ago, is that Morgan Guaranty Trust Company on Church Street, in New York?

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A Well, it was the Morgan Guaranty Trust Company, I don't know their location, but it was New York, Morgan Guaranty Trust in New York.

Q I see. Back to Exhibit No. 2, --

MR. HOLMES: And also for the record, you will have access to the transcript, which will include all of the exhibits to this deposition after it is prepared.

BY MR. HOLMES:

Q Back to Exhibit No. 2, was the Arab Development Corporation introduced to you by explanation at any meeting up to, and including the July 17th meeting?

A The Arab Development Corporation was never discussed.

Q At anytime?

A At anytime.

Q What was your understanding of STTGI at the July 17th, '86 meeting?

A When I received business cards at that time from everybody, and I asked what STTGI was, and they said it was set up as an exporting-import company. And that was the -- what I was told the purpose of STTGI was.

Q Do you know who the principals were, were you

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told who the principals were of STTGI?

A Well, on the business cards it had Albert Hakim as Chairman of the Board, and Richard Secord as the President, and then Robert Dutton, I think, Vice President -- I have those cards. I'm not sure --

Q This document No. 2, was it introduced at the meeting itself?

A No, that was handed to me at the same time, or about the same time that Robert Dutton gave me a structure of how our subsidiaries would be a part of STTGI.

Q And that was sometime shortly after the July 17th meeting?

A That was at the July 17th meeting.

Q Oh, I see, so both memorandum No. 2 and the structure No. 4 were handed to you at the meeting, is that correct?

A That's correct. Actually, Robert Dutton wasn't in that meeting. Afterwards we were standing out front, and he walked up and Albert and I were talking, and he handed this to Albert and said, "This is kind of how I have structured everything" and Albert took a look at it

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and handed it to me.

(Whereupon, the document was marked for identification as Exhibit No. 4)

BY MR. HOLMES:

Q So you got the memo --

A Actually, earlier that day in a meeting with Hakim, Secord and Royer.

Q And the memorandum No. 2, the contents were the focal point of the discussion at that meeting, the project progress on the four projects?

A That's correct, and --

Q And it was right after that meeting that you got No. 4 from Hakim, who had just received it in your presence from Dutton?

A Yes, just as I was leaving the premises, I was waiting for a taxi cab that I had called, and that was handed to me, just as I was getting ready to leave.

Q And this writing on the bottom of No. 4, it says "Thursday, 17 July, P.M., Albert and Bob gave me this outline in Washington, D. C.", is that in your writing?

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A Yes, that is my writing.

Q So the balance of the document is what Hakim actually handed to you?

A Yes, that is correct.

(Whereupon, a document was marked for identification as Exhibit No. 5)

BY MR. HOLMES:

Q I am handing you what has been marked as Exhibit No. 5 to this deposition, a multi-colored brochure titled American 180, The Legend Grows. Is this an advertising brochure for the American 180 firearm that was under discussion at these meetings?

A That's correct.

Q And there are several models of firearm under discussion here, right?

A That's correct.

MR. HOLMES: Now I am going to hand you what I will mark as 6-A, 6-B, and 6-C, described as follows: 6-A is an American Arms, Inc. business plan, a multi-paged commercially prepared advertising and commercial solicitation, would that be a fair description?

THE WITNESS: That's correct.

(Whereupon, the documents were marked for identification as Exhibits 6-A, 6-B and 6-C)

BY MR. HOLMES:

Q 6-B is American Arms, Inc. Book II, with appendices A through D, is that right?

A That's correct.

Q This is meant as an amplification No. 6-A?

A That's correct.

Q And 6-C is an American Arms, Inc. Book III, appendices E through G, a further amplification of the American Arms business, is that correct?

A That's correct.

Q Now, I will ask you to look at 6-B, and turn to Appendix B-3.

A (Perusing document)

Q And on through B-9, and ask you to tell me what device it is that is being described in these pages, and what was the name of the American Arms lexicon?

A I believe this was called the Quad-Mount System.

Q Did you have occasion to discuss specifically the Quad-Mount System with Richard Secord?

A At one point in time Larry Royer and the Goffs and Richard Secord were talking about having the U.S. military test this Quad-Mount System.

Q Where did this conversation take place?

A I don't recall that, when it took place, in fact, that may have been a telephone conversation, I don't remember whether that was in person, or by way of telephone.

I believe in our notes we have a reference to that via telephone call, that Richard should go ahead and pursue this matter, pushing this through and have it tested.

Q Okay, what was the project of having -- that Richard was going to be pushing through in those notes?

A Basically, to see if the U.S. military was interested in this system.

Q And did he represent to you that he had any particular ability to do that, or expertise at getting that done?

A That was represented, that he had the necessary contacts to get the Quad-Mount System tested, at least for manufacture.

Q Referring you back to Exhibit No. 2, there is a paragraph numbered one on the first page, Project A, American Arms, Inc. The second sentence of that says, "Through its subsidiary American Research Development Company, Inc., it is to develop the "Quad-Mount 180 Weapons System" for various military and security uses. Is this the Quad-Mount System that is being referred to here?

A Yes, I believe so.

Q On the second page of Exhibit No. 2, in the paragraph numbered eight at the bottom it says, Richard Secord will be responsible for lobbying and the marketing?

A That's correct.

Q And was that discussed there at that meeting, is this the discussion you were referring to?

A Yes, that is an assignment of everybody involved.

Q And Albert Hakim's notation says, "Albert Hakim will be responsible for establishment and supervision of the distributors (domestic and international)", and that was also discussed as his role?

A Correct.

Q I refer you to Exhibit 6-B again.

A (Perusing documents)

Q On a page that follows an Exhibit A, one page, which I will number separately as No. 6-B-1 for identification.

(Whereupon, the document was marked for identification as Exhibit 6-B-1)

BY MR. HOLMES:

Q I ask you what that is a photograph of?

A (Perusing photograph) It looks like the briefcase model that is in the brochure.

Q And I will get you the brochure in just a second. First, would you refer back to Exhibit No. 2, the memorandum, and I will read you from the same paragraph number one, Project A, the first sentence says, "American Arms, Inc. owns and manufactures American 180 weapons system, the laser-lock sight, the security briefcase and several related products".

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Is this what is known as the security briefcase?

A That's correct.

Q And to make the reference complete, I will refer you back to No. 5, on the sixth page of this, is this the security briefcase, again, as it is explained here?

A (Perusing document) That's correct.

Q Now, after your meeting on July the 17th, was it your understanding that Albert Hakim wanted to proceed by way of a so-called holding company?

A That's correct.

Q Could you explain -- if you would like to use the diagram in Exhibit No. 4, or the text in Exhibit No. 2 to help you explain -- would you explain to me what is meant by the holding company concept, as explained to you by Albert Hakim in those conversations?

A Well, basically, we have the STTGI Holding Company as the primary company, and it has got Richard Secord, Larry Royer, Albert Hakim and myself there at the top, with Richard Secord having the domestic and international customers. Larry Royer involved with sales

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and marketing, Albert Hakim also responsible for domestic and international distributions, and myself as comptroller of these four concerns: American Arms, CERETECH International, Tri-Red Cedar Associates and Bio-Fine Pharmaceutical. Each one of those being a subsidiary of the holding company.

Q And Dutton Diagram, No. 4, labels the holding company as STTGI, is that correct?

A That's correct.

Q Now, there was a holding company of sorts formed, was there not?

A No, there was never a holding company formed, there was a partnership formed.

Q And that was Tri-American Arms?

A Tri-American Arms.

Q And among who were the partners?

A The Tri-American Arms was Richard Secord, Larry Royer and myself.

Q Did it function as a holding company, of sorts for the four ventures under discussion?

A That's correct.

Q So, but for the name difference, it would have

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similar function to that outlined by Dutton?

A Yes, that is correct.

Q Now, let's start with the holding company -- I think probably before we go into the holding company, let me -- you have produced for us today two file folders relating to American Arms, is that correct?

A Correct.

MR. HOLMES: I am going to label them for the record as Exhibit No. 7, and Exhibit No. 8. Each of these exhibits consists of multiple pages, and embraces the folder together with all the pages therein.

(Whereupon, the documents were marked for identification as Exhibit Nos. 7 and 8)

BY MR. HOLMES:

Q Now, as to Exhibit No. 7, these documents are the business records for Tri-American Arms as they relate to American Arms, is that correct?

A That's correct.

Q These particular documents are the original documents?

A That's correct.

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Q And will be returned to you after numbering and copying today. Now, they happen to be in Xeroxed form, is that correct?

A That's correct.

Q Why is that?

A On July 24th of 1986, the Alcohol, Tobacco and Firearms Division out of Salt Lake City, came and confiscated all the original records, we made copies that day with the agent, and I have just copies of those original documents.

Q Where did the Alcohol, Tobacco and Firearms agent come to?

A He came to my office, in Loveland, Colorado.

Q And did they have a search warrant?

A The agent came in and said they were there to confiscate the files, I could either wait for a search warrant, or go ahead and give him a copy. I had nothing to hide, so I said there was no sense in getting a search warrant, I will provide you with everything I have concerning this matter.

Q And he allowed you to copy these documents that are in front of us today from the originals, and to keep these as copies?

A Correct.

Q Are these arranged in roughly chronological order?

A Yes, they are. Those on top are the most recent, and then back to the -- unless we have shuffled these.

Q With the exception of Exhibit No. 1, they are now in original order, is that correct?

A Yes, they are.

Q And Exhibit No. 1 was taken from this Exhibit No. 7?

A That's correct.

Q Now, as to Exhibit No. 8, these are original records of Tri-American Arms relating to American Arms?

A That's correct.

Q And these are original-original in form, is that right?

A Those are records after my records were confiscated by the Alcohol, Tobacco and Firearms Division, then these were notes and records that I have kept since that time, in chronological order.

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Q Among these documents is a set of documents from the U.S. District Court, United States District Court for the District of Utah, Central Division, is that right?

A That's correct, those records are for the confiscation of the receivers.

Q Did you notify Richard Secord of the confiscation of the receivers that is described in the documents?

A Yes, that's correct.

Q When did you do so?

A Let's see, that originally happened -- the confiscation of the receivers happened at the end of May and he was notified immediately of that confiscation of receivers. These documents came much later, the documents you were just talking about didn't come until December of 1986. But they were actually confiscated in May of 1986.

Q I understand. You notified him immediately after --

A He knew that they were confiscated.

Q How did you notify him?

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A By letter, and also by telephone conversation.

Q Are you able to find the letter by which you notified him, about Item No. 8?

A Let me see if it is in those letter -- but I believe those letters are in the holding company file.

Q Oh, very well. And that's an item that we haven't yet --

A We haven't looked at that yet. All correspondence there that we did with anybody in the holding company would have been in the holding company file. Those letters are primarily between the Goffs --

Q Okay. I would like to draw your attention to a particular series of items in Item No. 7 now.

MR. HOLMES: This is a collection of documents that I am going to separately item No. 7-A, in particular a page that I am going to number separately Item No. 7-A-1.

(Whereupon, the documents were marked for identification as Exhibit Nos. 7-A and 7-A-1)

BY MR. HOLMES:

Q First, as for Item No. 7-A, what is this collection of documents?

A At a meeting that I attended in Salt Lake City, the Goffs were talking about their ability to sell this American Arms M-180 throughout the world, and that they had visited numerous countries and had licensing agreements to take the firearm outside of the country. And I asked them what type of authority they had to do that.

And that's when they produced these documents that showed that they were currently approved by way of the -- as per an application of license for export of unclassified defense articles.

Q And who was present at this meeting in Salt Lake City?

A Bill Goff, Jr., and Bill Goff, Sr., and Larry Royer.

Q And yourself?

A And myself.

Q When did it take place?

A Probably sometime after the confiscation of the receivers, so I suppose in early June, or middle-June.

Q Now, I am drawing your attention to a document

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within 7-A, which I have numbered 7-A-1. This particular document is one of the applications for export in this collection, is that right?

A That's correct.

Q This particular one the applicant's name is R.M. Equipment, Inc. with an address of [redacted] [redacted], is that correct?

A Correct.

Q And the name, state and telephone number of the applicant is James L. McCoy, Florida?

A That's correct.

Q And it goes on to describe, as do all of this series, the American 180-M-2, 22 long rifle, laser site, extra magazines, et cetera, is that right?

A That's correct.

Q The source of manufacturer here is American Arms International, Inc., that is the company that you were dealing with?

A That is the company that we were dealing with through Tri-American Arms.

Q This particular application relates to the country of Haiti, correct?

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A That's correct.

Q It is dated 12-9-85?

A That's correct.

Q Referring to these other applications, they refer to American Research and Development Company, Inc., do you know who that entity was?

A Yes, that is a subsidiary of American Arms, Inc.

Q And do you know if they were controlled, also, by the Goffs?

A It was controlled by the Goffs.

Q And this first page -- first two pages, I believe, of Exhibit 7-A --

A I think they are copies, I think there is one page --

Q Are copies one of another, and there are 29 countries in which the export --

A Currently approved for, it looks like.

Q -- as you understood it?

A That's correct.

Q The second one on this is Saudi Arabia, is that right?

A Yes, that is correct.

Q Thank you.

MR. DICKINSON: Counsel, could I voir dire just a couple of questions with regard to the exhibits that you have been referring to?

MR. HOLMES: Sure.

VOIR DIRE EXAMINATION

BY MR. DICKINSON.

Q Mr. Marostica. there has been the use of the term "holding company", and I think in two different contexts. Number one, the holding company STTGI, insofar as you are aware, is this file a part of an STTGI Holding Company?

A No, this file is a Tri-American Arms file.

Q So you are referring to holding company in the context of Tri-American Arms?

A When I speak of a holding company as Tri-American Arms, I had nothing to do with STTGI.

Q Okay. Number two, in regard to the applications for arms sales that you have just testified to, were those applications made during your involvement, or the partnership's involvement with Tri-American Arms?

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A No.

Q How did you come into possession of those?

A At one of the meetings -- I was questioning the ability of the Goffs to be able to manufacture and sell this firearm outside the U.S. And they produced those documents as proof, having the ability to do that.

Q That was your only involvement with it?

A Yes, there was no other reason for those documents.

MR. DICKINSON: Thank you. No further questions.

DIRECT EXAMINATION (RESUMED)

BY MR. HOLMES:

Q You never looked into whether that was appropriate or necessary, or final, or anything like that?

A No, I simply asked the Goffs --

Q Whatever they said about those documents you took it to be what they represented it to be?

A Correct, in fact, I just, out of the clear blue said, "Why don't you give me a copy of those?", and they did, for no other reasons than to have them in my

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files.

Q Sure, okay. Now, we will pass on to what you referred to as the holding company file, and that is understood to mean Tri-American Arms, the partnership?

A That's correct.

Q The only time STTGI came in as the holding company was Dutton's notional diagram, is that right?

A Exactly.

Q It was your understanding at that time that they, meaning Hakim, Secord and Dutton, wanted STTGI to have a greater role over the four projects, but you resisted that?

A Exactly, it was as if we were just going to get rid of Tri-American Arms and bring this whole thing under their umbrella. And I resisted that.

Q That was something that they proposed in the July 17th meeting, but it never came to pass?

A It never came to pass.

Q And the reason it never came to pass is because you felt that it shouldn't come to pass?

A Exactly.

Q Could you go into a little more of why you didn't --

A Well, I didn't know who STTGI was, I didn't know what their business was. I didn't know their business relationships, and I did know what Tri-American Arms was, so I, basically, wanted Tri-American Arms to handle any of the business to be handled with the projects.

Q I understand. Was there any stock purchase?

A There was never any stock, it wasn't a corporation, so there wasn't any stock to be purchased.

Q I understand that it never came to pass, but was there in the July 17th meeting some discussion that perhaps came to be mentioned in Exhibit 2, about stock -- STTGI stock in companies related to these four projects?

A Yes, we didn't really talk about that much because when I brought up, you know, if we are going to have stock, what are we going to use, a regular corporation or a Sub-S corporation. And no one could speak intelligently with me about that, so it was just dropped.

They said stock, but when I said what type entity are we going to have, authorized stock, preferred stock -- there was no one there who could speak to that, so then that was the end of that, talking about the stock.

Q Your concern was you were afraid you were going to lose control as an equal and open partner of Tri-American, if there was some kind of stock deal with STTGI?

A That's exactly right.

Q Now we will go on to Exhibit No. 8 -- excuse me, Exhibit No. 9, which collectively is the so-called holding company file, that being the file of the internal workings of the partnership Tri-American Arms.

A Right.

(Whereupon, the document was marked for identification as Exhibit No. 9)

BY MR. HOLMES:

Q Now, you have been good enough to go through this file with us, and I would like to revisit certain portions of it because the central part of the partnership -- and this file is also in chronological order?

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A That's correct.

Q Starting from the bottom working up?

A Well, each one of these sections is in chronological order, one is documents that pertain to -- some of them are the bank documents, so each one of these sections has its own chronological order.

Q Very well. Could you select out for me the first section as you organized it?

A Yes, that would be --

Q That is now marked as Exhibit No. 9-A.

(Whereupon, the documents were marked for identification as Exhibit 9-A)

BY MR. HOLMES:

Q And we will start 9-A from the bottom. And I am going to show you a document now marked as 9-A-1, a letter addressed to Albert Hakim at Stanford Technology Trading Group, Inc., written by yourself on June 24th, '86, is that correct?

A That's correct. I was asked by Albert at our June 23rd meeting to recap and send a brief description of all the companies that we spoke about for the first

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time here in Washington, D. C., and that's what I did, and that's what that letter is.

(Whereupon, the document was marked for identification as Exhibit 9-A-1)

BY MR. HOLMES:

Q Now, this I assume would have been preparatory to the July 2nd and 3rd meeting in Seattle, is that correct?

A That's correct.

Q These same descriptions also come forward into Albert Hakim's memo, Exhibit No. 2, handed to you on July 17th?

A That's correct.

MR. HOLMES: Next we have 9-A-2 and 9-A-3, these are diagrams, speaking of diagrams and explanatory material, speaking of 9-A-2 first, this is an organizational chart, is that right?

THE WITNESS: Yes, those are notes of mine, as we were speaking about the structure of a holding company, those are notes that I was just doing for myself to kind of keep track.

(Whereupon, the documents were marked for identification as Exhibits 9-A-2 and 9-A-3)

BY MR. HOLMES:

Q Who was present when you made these notes?

A Albert Hakim, Larry Royer and Richard Secord.

Q Is this your meeting in Seattle?

A That is the meeting -- yes, this is the meeting that was held in Seattle, so there would also have been Willard Zucker at that meeting.

Q Towards the top of the page in the center there is a box labeled DLAR.

A Correct.

Q What do those initials signify to you?

A That is Don, Larry, Albert and Richard.

Q Meaning yourself, Royer, Hakim and Secord?

A That's correct.

Q There are notations relating to China and Korea, what was the discussion surrounding those?

A Those countries were brought up as countries to export and market to, primarily, if I remember, China was the exporting of the CERETECH International Food Product, Korea was for the Wood Product, the Red Cedar.

Q Okay. There is a notional service company written over Korea, $1,000 that's an example $1,000 is that right?

A Yes.

Q And the $1,000 is then split up in various portions, a 30 percent, 25 percent and 15 and 45 percent?

A I think the way that is set up, if we look here on a $1,000 example, if Korea kept $30, then with flow through to STTGI, $970; which would flow through to another company -- I don't recall right now what these figures -- it seems like on each one of these there is a percentage basis, based upon how each individual was involved with these particular areas.

If the comptroller, for example, if I remember, I would get 15 percent of the profits here, Larry would get 15 percent of the profits, Albert would 45 percent of the profits, and Dick or Richard Secord 25 percent of the profits, of anything sold through the Wood Project in Korea, based upon the amount of work that was actually done.

Q In the upper right-hand corner there is what looks like a division of labor: lobby, market, production and then there is --

A I think that is a log product.

Q This is the log products?

A Yes, I think they are talking about the wood products.

Q And these are notes that you took extemporaneously?

A Yes, I was just sitting there with a yellow pad and taking down notes as they were speaking, listening to the structure.

Q On the left-hand side at the top there is a box with STTGI and within that a box labeled CFF.

A Right.

Q What was the discussion surrounding those notations?

A CFF was mentioned, but I didn't tie it in to that conversation at all. I didn't know what CFF meant at the time.

Q And how was STTGI presented to you, in such a way that it became part of this chart?

A That they were going to be the primary holding company for everything involved, that everything that Tri-American Arms was involved in.

Q So this DLAR box was a stand-in for Tri-American Arms?

A Actually, a stand-in for Tri-American Arms, correct.

Q Thank you. There is a notation at the bottom saying "flow of cash, where does it go, and where can I tap it", that is your writing?

A That's correct.

Q Did you bring this concern up to --

A No, I didn't bring it up, but I wrote that in my notes, how was the cash going to flow throughout this whole entity, because in my mind I was questioning, you know, how were we going to be taxed, which entities were going to have tax ID numbers.

And so a concern to me was, you know, where was the cash going to flow, where does it go, and what part was I going to play. I had a feeling there that somehow I might get squeezed out of the whole thing, when I was sitting there in that meeting.

Q How many dollars are we talking about as a total investment necessary as you sat there in Seattle, with all of these projects?

A Well, if you add them up, we were going to use $1 million for the American Arms project, and that was to complete the first 5,000 units. At that time we were in the middle of a contract with the Seattle Wood Project for approximately $6.5 million, that was a leverage project. Still there was probably $1.5 cash that was needed up front.

Q So there was $1 million cash up front needed for American Arms --

A Approximately, somewhere between $1 million and $1.5. on the Wood Project; CERETECH International needed probably $1 million, to $1.5 million. And basically, that is what we are talking about at this point in time, because Bio-Fine, we were just doing the research and a study to see what that total cost was going to be.

Q Was there any discussion about the availability of these funds?

A Basically, we didn't discuss it much, because it never seemed to be a problem, it never seemed to be --

the cash that was coming into the project wasn't a drastic problem.

Q During your meetings there in Seattle, did you have occasion to talk with Zucker about investments?

A Yes, I did.

Q What was that conversation?

A Willard Zucker and I spoke about my role as a securities broker, and he brought up the point that he had many investors in Europe and in the Middle East, that might be interested in purchasing securities products here in the U.S. And that was aside from these projects that we were talking about. He seemed to have a lot of contacts in the European countries.

Q By aside from you mean --

A Just in conversation between the two of us, outside the meeting --

Q This was additional money?

A Yes, that was additional money, that didn't have anything to do with this.

Q Did he tell you what amount of money he had available for investments in the United States?

A Basically, he didn't give me an amount, but that he had a large amount -- just from a number of very wealthy clients.

Q Did he say there was any limitation, or did he say that it was unlimited?

A It appeared to me that it was an unlimited amount of money. In fact, I even asked at one point of time, you know, what are we looking at for funds from investors. And he said there is plenty of money, or there is a lot of money, or -- I got the feeling that there was unlimited.

Q Referring you now to Exhibit 9-A-3, these are additional notes taken at the Seattle meeting, is that correct?

A That's correct.

Q There is a reference here to Arab Oil Company, can you explain how that came to be on your notes?

A Yes, we talked about the Sterling manufacturing firm that we were going to use to make the American Arms 180, was a company that made specialized oil tool equipment. And at that point in time, Albert said he had a contact with an oil company that would be interested in buying that equipment and that company in Sterling,

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Colorado.

Q I gather they were in need of equity funding at that --

A Yes, they needed equity funding, they had a very large loan with a local bank, and they needed capital, needed to sell their corporation.

Q So he was going to find a buyer for that company, that was an Arab oil company?

A That's correct.

Q I refer you now to 9-A-4.

(Whereupon, the document was marked for identification as Exhibit 9-A-4)

Q This is, again, in your handwriting, is it not?

A Correct.

Q Can you tell me how these notes were made and when?

A Yes, at the July 17th -- on July 17th, I went through with Larry Royer a list of points that I felt -- the way I had met Richard Secord, and when I met him, et cetera, and he agreed to those 10 points.

Q So this was sort of a recapping of how it had

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gone?

A Yes.

Q What was the occasion for the recapping?

A Well, they were trying to break up the relations at that point, and Larry was saying to me that we didn't have a partnership. And I said, now, wait a minute, Larry, let me explain how this happened, and see if we -- if we don't have a partnership in writing, we have an applied partnership -- implied partnership.

Q Point No. 4 says that Dick and Larry went to Salt Lake to see Goffs, met with them one full day?

A Yes, prior to meeting them for the first time, meeting Richard in Denver, they were with the Goffs the day previous. So, Larry had taken -- before I even knew Richard --

Q Out to see the Goffs in Salt Lake?

A That's correct.

Q And it was after they had spoken to the Goffs separately, that Larry Royer invited you down to join the group?

A Well, he said the next day they were coming to the Denver airport, and he wanted me to meet with Secord that day.

Q Yes, I didn't mean to imply that he invited you to Salt Lake City.

A He invited me to Denver.

Q To sort of join the group that was already in the formative process, having met in Salt Lake City the day before?

A That's correct.

Q At this point in time, $50,000 has already been invested in CERETECH, is that correct?

A Correct.

Q And how did that transaction take place?

A Well, by that time Albert Hakim met Richard Fincke, the president of CERETECH International, and they really didn't care for each other. And consequently, they were trying to figure out from this whole situation how they could back out of CERETECH International, and that is how the conversation came into play.

Q Page 9-A-5, dated 7-29-86.

(Whereupon, the document was marked for identification as Exhibit 9-A-5)

Q This is after your 7-17 meeting, is that correct?

A Correct.

Q Again, your handwritten notes?

A That's correct.

Q What does this refer to?

A I had a conversation with Albert Hakim, and Albert was saying that they wanted the $50,000 back from CERETECH International. Albert said in that conversation that his group -- and when I asked who his group was, he says Larry Royer, Richard Secord and Albert Hakim has lost trust in myself, because they were afraid they weren't going to get back their $50,000.

And he was asking me at that time to send them $50,000.

Q And what was your position on that?

A Basically, that that project was approved, it was approved by Larry Royer and Richard Secord, and I really didn't know what part Albert played in the $50,000. I just simply said, I don't know, Albert, why you are asking for this back, because I never realized it was your money, I thought it was Richard Secord's.

Q What is this reference down here to a $2.4 million letter of credit?

A Oh, there was a point in time where the Federal Land Bank, on the wood project, in lieu of cash, said they would take a $2.4 million letter of credit.

Q Referring you to 9-A-6.

(Whereupon, the document was marked for identification as Exhibit 9-A-6)

This is dated 7-30-86, also phone notes in a conversation with Hakim?

A Yes, that is correct.

Q What is being discussed here?

A It looks like that day we discussed -- Albert, again, was trying to figure out how we were going to collect the $50,000 from Dick Fincke and CERETECH International, he felt that Dick Fincke was trying to sell some of the license agreements to pay back the $50,000; he thought that it couldn't be done. And he was going to give Dick Fincke exactly one month to produce that $50,000.

He wanted Dick Fincke to produce some kind of goodwill, collateral, et cetera, he wanted Richard Fincke to put his own money in the account, basically that's it.

Q Okay, 9-A-7.

(Whereupon, the document was marked for identification as Exhibit 9-A-7)

This is your phone notes of 7-31-86, is that correct?

A That's correct. In those conversations on 7-31, I had spoken to Larry, Larry said that Albert was really on him about this project, about the wood deal. And Albert was upset with me.

Q I would like to draw your attention to this line, it says, "Larry said Dick Secord said time to go after ATF".

A Yes.

Q These are your notes of a call with Larry Royer?

A Yes, exactly.

Q Was he telling you what Dick Secord told him?

A Yes, Dick Secord he said told him that it was time to go after the ATF at that point in time.

Q And had you had other discussions with Dick Secord --

A In fact, at that time they mentioned a John Barr that was representing Richard Secord, and they were going to go after this Max Wheeler, with ATF.

Q Max Wheeler is an ATF employee?

A Actually, Max Wheeler is the attorney for the Goffs.

Q So, John Barr --

A In other words, he was going to try and find out -- John Barr was an attorney that was hired by Richard Secord, I believe, and Larry Royer, to go after the ATF.

Q What did Larry Royer tell you John Barr was going to do, when he was going after Max Wheeler?

A Well, they wanted the thing settled with ATF.

Q I see. Did you have other discussions about the ATF with Secord, himself?

A Yes, there were conversations with Richard and Albert Hakim concerning the ATF.

Q What Secord tell you, just generally, and --

A Well, he got very upset them, he thought that they were taking advantage of the Goffs. They had no case against the Goffs and the receivers, and thought they should be returned.

Q Did he solicit money from you to fund that lawsuit?

A Yes, once upon a time they asked that the partnership each put in $7500 to hire an attorney, to sue the ATF.

Q Did you do that?

A I thought it very comical.

Q So you declined?

A I declined.

Q I am showing you 9-A-8.

(Whereupon, the document was marked for identification as Exhibit 9-A-8)

These are your handwritten notes of 12:20 p.m., and I assume from this other document associated with it, it was approximately the 5th of August, or thereabouts?

A Yes, about that time.

Q Between the 1st and the 5th of August?

A Yes.

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Q Who is Ronnie Gale that is being mentioned in this?

A You know, I don't know, I wrote this on my notes, but at that time Larry said that he spoke with Ronnie Gale about a couple of the projects that we were in the middle of, he was going to send information on Bio-Fine, which was the pharmaceutical concern, and the wood project to Ronnie Gale. I don't know who that is.

Q 9-A-9 is your notes of August 10, '86, is that right?

A That's correct.

(Whereupon, the document was marked for identification as Exhibit 9-A-9)

Q Now, are these notes of a phone call with Dick Secord?

A No, those notes are conversation I had with Larry Royer.

Q- And he is reporting to you what Secord --

A He is reporting to me what Secord wants to do at that point in time.

Q During this period of time are you able, or

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have you attempted to communicate in writing with Secord?

A There were numerous occasions when I tried to write to Secord, but I wasn't getting any response by written correspondence.

Q He was not answering your letters?

A No, he was not answering my letters.

Q But he was willing to talk to you on the phone?

A Yes, I spoke to him on the telephone and Larry was on the telephone with him constantly.

Q Larry Royer?

A Larry Royer.

Q And what did Larry Royer report to you that Dick Secord told him as of August 10th?

A Dick Secord wants to do the wood deal, and Dick wants to know how we are going to get the $50,000 back from CERETECH International. We needed to find an extra $38,000 American Arms, and how we would do that.

There is a note here that Larry said the Saudi representatives and Dick Secord will be in Washington, D. C. tomorrow on the wood deal.

Q They were intending to sell the Red Cedar to Saudi Arabia?

A No, I don't think so. I never heard that, of the Saudi representatives before that, we had always talked about the Red Cedar to the Korean concerns.

Q 9-A-10, is your notes of August 12th?

A That's correct.

(Whereupon, the document was marked for identification as Exhibit 9-A-10)

Q And this is a continuation of round-robin discussions on the fate of the wood deal, is that right?

A That's correct.

Q And it says here that Richard Secord is going to Salt Lake --

A Yes, Larry was telling me that Richard Secord was going to Salt Lake, and then on to Washington, D. C.

Q They were trying to make the wood deal go?

A Yes, that's correct.

Q Referring to 9-A-11, does this refresh your recollection about any discussion with regard to the signature cards on the Tri-American bank account?

A Yes, in a conversation with Dick Secord, on 8-12, he asked me to go ahead and send the signature

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cards to Larry Royer, so that two names could be put on the Tri-American Arms partnership bank account.

Q So items No. 9-A-11 and 9-A-12 are two pages of the same thing?

A Yes, those are notes on that conversation.

(Whereupon, the document was marked for identification as Exhibit 9-A-11 and 9-A-12)

Q And were you ever able to get them to sign on the partnership bank account?

A At that point in time I just -- I made the decision that I was going to work on figuring out how to terminate the partnership. And I wasn't going to put anyone else -- I wanted to control that account, I didn't want any other signatures on that account.

Q Had you asked them to sign --

A Numerous times, both in writing and in telephone conversation.

Q- And had they done so?

A They had not responded. The first day that I opened the account I sent the necessary forms from the Commercial Bank in Sterling to Richard Secord and Larry

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Royer, and I never received those.

Q How did you end up on that account, financially, who ended up with the money from the account?

A Well, the total amount of the funds had been disbursed out of the accounts, and as per documents that we have -- a little bit later on I will show you the breakdown of that account and the monies and how it was disbursed.

Q Referring to 9-A-13, these are your notes of August 23rd, '86?

A That's correct.

(Whereupon, the document was marked for identification as Exhibit 9-A-13)

Q Now, there is a reference here to "Dick will put own money into deal".

A Yes, I was talking with Larry Royer, and they had a meeting in Seattle, they were working on this wood project. I asked him what happened in Seattle, and he said that the wood agreement was on its way to Spokane. They talked about the $50,000 for CERETECH

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International that Albert's portion needed to be paid off. And I questioned that, I said, "Well, it is Richard Secord's, or Dick's money, and now all of a sudden why are you paying Albert Hakim some money?"

Because I still didn't understand the relationship in Tri-American Arms with Albert Hakim.

Q So it was your position that Albert Hakim not being a partner, had no interest in that money?

A Absolutely not, no interest in that money.

Q And it was your position that it was Dick's money -- Dick Secord's money that you put in all along?

A That's correct.

Q And they were then changing that?

A Yes, all of a sudden I was hearing that it wasn't Dick's and I was questioning that fact.

Q Did there come a time when you sent $15,000 from the partnership account to Larry Royer?

A Yes.

Q And on whose instructions did you do that?

A Those instructions were from Richard Secord and Larry Royer.

Q How did that happen?

A We had money sitting in the account that wasn't being used, and we simply said instead of having money in that account, we will send it back to the partners. And so I had a cashier's check drawn in the name of the partnership, Larry Royer as a partner.

Q And did you then deliver that check, send it to Larry Royer?

A Yes, by certified receipt mail.

Q I refer you to 9-A-13A, a letter dated September 4, 1986, addressed to Richard Secord, at STTGI.

(Whereupon, the document was marked for identification as Exhibit 9-A-13A)

A That was a letter that I sent to Richard Secord, stating that Larry Royer had requested a refund of a total of $18,369 from our partnership banking account, and that was returned from Erickson and Barkshire, trust account. And I outlined why there were some expenses involved, and that I wasn't willing to send all that money back, until the expenses were taken care of.

Q You were in the process now of trying to extricate yourself from the partnership?

A Well, basically, we were -- yes, I was trying to terminate the partnership.

Q And did you eventually receive a letter on September the 10th, 1986 from Secord, which is now marked 9-A-14?

(Whereupon, the document was marked for identification as Exhibit 9-A-14)

A Yes, I received a letter, based upon my original letter, of the $18,000 refund. In that letter he said that we were prepared to pay for all necessary fees and goes on to say that "Although we agreed in principle to form the partnership, no actual agreement has actually been reached".

Q He is taking the position that there had been no partnership?

A Exactly.

Q And was there finally a dissolution of the partnership, signed by the three of you?

A Yes. A document -- there was a waiver and termination of agreement eventually that split whatever implied partnership there was -- it was broken.

Q I am showing you now what is marked as Exhibit 9-A-14 to your deposition. Is this the waiver and termination of partnership agreement?

A Yes, that's correct.

(Whereupon, the document was marked for identification as Exhibit 9-A-14)

Q Is that signed by yourself?

A Yes, that is signed by myself, it is also signed by Larry Royer and Richard Secord.

Q And is this the original-original?

A That is the original-original.

MR. HOLMES: Let's go off the record for a second.

(Off the record)

BY MR. HOLMES:

Q And were there a number of original-originals created so that each of the partners and probably counsel would get original-originals for their files?

A That's correct.

Q And this is one --

A That is one of those documents that was signed.

Q I notice this document is dated this blank date of November 1986. But we have already passed that in the chronology. It wasn't signed in any blank date of November 1986, was it?

A Actually, I believe this document wasn't signed until January of 1987. It was originally prepared in November 1986, but we received from Stanford Technology Trading Group on 1-7-87, the actual document.

Q Okay. I show you a document 9-A-15, a Federal Express slip from R. V. Secord, at Stanford Technology Trading Group International, 8615 Westwood Center Drive, No. 262, Vienna, Virginia, is that correct?

A That's correct.

(Whereupon, the document was marked for identification as Exhibit 9-A-15)

Q And was it this Federal Express package that delivered the document that is now marked 9-A-14?

A That's correct, the termination of partnership agreement.

Q And it is dated 1-7-87, is that correct?

A That's correct.

(Off the record)

BY MR. HOLMES:

Q Okay, Mr. Marostica, returning to the record, I would like to refer you back for a second to the Quad-Mount and I am going to hand you what is marked as Exhibit No. 7-B, and ask if that is in your handwriting?

A Yes, that is my handwriting.

(Whereupon, the document was marked for identification as Exhibit 7-B)

Q Approximately when and how would that have been created?

A That -- I don't have this dated, but it seems at one point in time, in dealing with American Arms, and this would have been after we had already funded them with the $60,000 that we thought -- this was the method to go ahead and recoup our original loan by giving Richard Secord the right to push the proposal of the U.S. Army to develop the Quad-Mount.

Q This was something you were proposing to -- a right that you were proposing to distribute to Mr. Secord separately?

A I think that was just a thought, and I was talking with -- I think at the time Larry Royer, about what we could do to solve our problem of collecting our money from American Arms, and this was one thing that could be done.

Q And it makes a reference here for use in a variety of combat and security situations, and joint venture net profits?

A Yes, in other words, maybe we could joint venture that product, if we didn't have enough money with American Arms, maybe there was a possibility of joint venturing it with other firearms manufacturers to make that particular project.

Q With the idea being to split out the Quad-Mount product as a separately marketable product and try to make money separately marketing that?

A That's correct.

Q And you discussed that possibility with Secord?

A I don't recall. I did discuss it with Larry Royer, but I don't think I discussed it directly with Richard Secord.

Q Did Royer tell you that he had discussed it with Secord?

A I was passing the information to Royer, so that he would discuss it with Richard Secord.

Q And did he come back to you with a response from Richard Secord?

A I don't believe so, I don't recall that.

Q Thank you. This is the next section of Item No. 9, this section is marked 9-B, and apparently consists of the financial records of the partnership, is that correct?

A That's correct.

(Whereupon, the documents were marked for identification as Exhibit 9-B)

Q We will go through these documents in chronological order, approximately. 9-B-1 is a handwritten note referring to remitter, DM/Partner TRI-AA?

A Yes.

(Whereupon, the document was marked for identification as

Exhibit 9-B-1)

Q Could you tell me how this document was created and what it signifies?

A Yes, when I went --it was agreed upon to send a $15,000 check to Larry Royer, that was for the teller, instructions to make the cashier's check to Larry Royer, a partner for Tri-American Arms.

Q Okay. 9-B-2 is copies of $30,000 checks to the order of American Arms, Inc., and Electronic Metal Products, Inc.?

A That's correct.

(Whereupon, the documents were marked for identification as Exhibit 9-B-2)

Q Who is Electronic Metal Products, Inc.?

A Electronic Metal Products, Inc. was the company that was manufacturing the receivers, 1,000 180 receivers for American Arms.

Q Where were they located?

A They were located in Denver, Colorado.

Q Were they a subsidiary of American Arms, or were --

A No, they were just a jobber, separate from them.

Q Have you ever heard, prior to today of an organization known as Four Ways?

A No, I haven't heard of that organization.

Q Did you ever discuss with Secord, or Hakim, the possibility of their having the American Arms products manufactured through a separate manufacturer?

A We discussed --not the American Arms product itself, but we discussed a laser unit, that they could manufacture somewhere else.

Q And did they tell you where?

A No, they didn't say where.

Q Did they talk about the manufacturing in Korea at any time?

A Yes, we spoke about -- at a meeting, manufacturing -- moving the whole operation to Korea, because laborwise it was cheaper to do that.

Q Whose idea was that?

A I believe that was Albert Hakim's idea.

Q And in what meeting was that discussed?

A That was at the meeting in Seattle, Washington, on July 2nd and 3rd.

Q Referring back to 9-B-2, the second check is made out to American Arms, Inc. and Advance Manufacturing. Is Advanced Manufacturing yet another jobber?

A Yes, that's correct.

Q Also located in Colorado?

A Yes, also located in Colorado, in Denver.

Q And they were to do a different part of the receiver?

A No, they were actually going to make 1,000 receivers, there was too much job for just one manufacturer, and so they were going to do 1,000 and Electronic Metal Products was going to do 1,000.

Q I gather that the actual manufacturing process of these receivers is not a particularly difficult, or complex task then?

A I don't believe so.

Q So you were just approaching different jobbers, and --

A Well, the Goffs were, the Goffs were handling all of that. This was money that we were loaning to them, to manufacture the receivers.

Q Referring to Exhibit 9-B-3, it's a copy of a check for $25,000 dated June 16, '86, to Erickson and Barkshire, P.S.?

A Right, that is a law firm in Seattle, Washington.

(Whereupon, the document was marked for identification as Exhibit 9-B-3)

Q It is noted "earnest money deposit, Quinault Timber Project", and signed by yourself, is that right?

A That's correct.

Q And it is on the partnership bank account?

A It is on the partnership bank account.

Q This being Commercial Bank of Sterling?

A Commercial Bank of Sterling.

Q What was the purpose of this particular payment?

A On June 16th, we sat down and gave an outline for a contract to the Federal Land Bank there in Seattle, Washington, to buy approximately 10,000 acres of wood, and San Erickson asked for an "earnest money deposit" to

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start doing that legal work, of $25,000.

Q Had you discussed a contribution to the partnership equity with Hakim, or Secord, at around the same time as this check, independently of it?

A Could you ask that question again?

Q Why don't I just hand you Exhibit No. 10, like Exhibit No. 3, you wouldn't have had access to, but for the purpose of refreshing your recollection about the events, it notes a $200,000 payment from Alvin Values, Corp. account at the Credit Suisse, in Switzerland into the Commercial Bank of Sterling, Sterling, Colorado.

(Whereupon, the document was marked for identification as Exhibit No. 10)

A (Perusing document)

Q This is in favor of TAA, I assume that TAA would be Tri-American Arms?

A Tri-American Arms, that's our account number.

Q And the account number of [redacted] is the account number?

A That's correct.

Q This is for the amount of $200,000. First, let

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me ask you if the account ever received the $200,000 payment?

A No, that was not received in the account.

Q And did you have discussions with Hakim or Secord about this amount coming in?

A Yes, I did. I had a conversation with both of them.

Q And what was the conversation that you had, first with Secord about that?

A Well, I asked Dick Secord if the money was being sent in, because we had on the contract for the wood project, there was $100,000 earnest money, and at the time we had only given $25,000 to Sandy Erickson, we needed another $75,000. We didn't have enough in the account for that contract.

So, on June 16th, I asked Dick about it, he said it was being sent by Federal Express, bank draft. And on the 16th of June.

Q Did you make a notation of that?

A Yes, I did, in my notes.

Q Let me hand you what is marked as Exhibit No. 7-C, a notation, apparently on the back of a phone

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note, on which it is written "Dick Secord said the money was being sent DHL above on Monday, 6-16 and it says '76, but I assume that is '86?

A '86, correct.

(Whereupon, the document was marked for identification as Exhibit 7-C)

Q Is that your handwriting?

A That is my handwriting.

Q And that is a phone note, after a call with Dick Secord?

A I believe so, that is on the back of a phone note, and typically, I -- once I return a call, I will just turn the phone note over and record the conversation.

Q And what was your understanding of DHL at that time?

A Well, I didn't know what DHL was, so I called Commercial Bank, Steve May, the bank officer, and asked him what DHL was, and he said it was Federal Express with immediate value bank draft.

Q So he explained to you that it was a way of

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transferring money?

A That's correct.

Q And did you discuss the precise method of the transfer with Albert Hakim at any time?

A Well, after this date, where I discussed it was going to arrive by DHL, then on 6-24 the money still hadn't come into the account. And I spoke with Albert Hakim about that, and he said that, yes, it had been transferred, and $200,000 had been transferred and it came from Credit Suisse, Allied National by way of United Bank of Sterling, then to Commercial Bank.

In fact, we even had a "swift" number, but it never made the account.

Q Let me show you what is marked as Exhibit No. 11 to your deposition. Is this your handwriting?

A (Perusing document) That is my handwriting.

(Whereupon, the document was marked for identification as Exhibit No. 11)

Q And is that a phone conversation note, after a conversation or during a conversation with Albert Hakim?

A That's correct.

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Q And what did he tell you in that conversation?

A Well, in that conversation he told me the money should have been in our account a week ago.

Q Did you discuss with him later on why the money didn't reach your account?

A I don't believe I discussed it with Albert Hakim, but I discussed that with Larry Royer, why the money hadn't entered the account. And by that point in time, in July, they didn't want to talk about the $200,000 anymore. They were going to handle the project themselves, and they said they would worry about the earnest money for the contracts on the wood project.

Q Well, could you tell me more particularly what Royer said? Had they just changed their mind in midstream, or what?

A Well, basically, I think about that time they were very unhappy with Richard Fincke about the loan that was made to CERETECH International, and they were trying to figure out how that money was going to be collected. They were unhappy --

Q Did Larry Royer tell you where the $200,000 went?

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A No, it was never discussed where that money went, no.

Q But he gave you to understand that a person went to Secord and Hakim, and the money wasn't coming into the partnership account?

A Yes, the money wasn't coming into the partnership account.

Q Let me show you what is marked as Exhibit 9-B-4, a page of copies, including a stop payment request, and an advice of charge dated 6-19-86. Can you explain what these documents signify?

A Yes, on June 16th of 1986, I wrote a check to GERETECH International, check No. 4 out of the Tri-American Arms account, for $50,000. And on Monday, the 19th, I was contacted by telephone by Richard Fincke, and their bank wouldn't clear the check for 10 days and they needed the money right then.

So he asked me if I would do a stop payment on that check and wire the money directly to their bank account in place of that check. And those are just advice of the charges, and the actual wire, or stop payment request.

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(Whereupon, the document was
marked for identification as
Exhibit 9-B-4)

And the amount of money that was sent to CERETECH International, $49,990 because there was a $10 charge for wiring the money.

Q Did the substitution of this wire for the original check have the effect of breaking the account chain?

A Actually, it didn't break the account chain, but I don't have a copy of the check, which noted on it that it was actually a loan to CERETECH International.

Q So it divested you of the convenient ability to show that this was a loan, and not a mere payment --

A That's exactly right.

(Whereupon, the documents were
marked for identification as
Exhibit No. 9-C and 9-D.)

Q Now, what I've marked as 9-C and 9-D are the balance of your Tri American Arms file, is that correct?

A That's correct.

(Whereupon, the document was

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marked for identification as
Exhibit No. 9-D-1.)

BY MR. HOLMES:

Q Referring you within 9-D to the letter dated December 29, 1986, which I have marked as 9-D-1, is this a letter that memorialized your understanding of the bottom line financially, with this partnership, from your lawyer to their lawyer?

A Yes, that's a letter from my lawyer to Malcolm Harris, the lawyer representing Richard Secord and Larry Royer, which is a part and portion of the final termination agreement. It's not actually a part and portion of that, it's just a letter of understanding from my attorney to their attorney.

Q And it covered a draft of the waiver and termination of the partnership agreement, is that right?

A That's correct.

Q That brings us to the final accounting of the partnership. I wonder if you could start at the beginning and tell us what monies went into the partnership and what monies went out and to whom, understanding that there is a $200,000 amount that left

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Credit Suisse but never actually came under your control in the partnership.

A You have all those notes for the Tri American Arms file, the accounting.

Q That would be 9-B.

A No, there's another sheet on top unless it's been intermixed with something, that has the total accounting of all that.

(Off the record.)

(Whereupon, the document was marked for identification as Exhibit No. 9-E and 9-E-1.)

BY MR. HOLMES:

Q We are looking at a document from the Number 9 and we'll refer to this collection of documents of you're accounting out as 9-E, all right?

A That's correct.

Q The first page of 9-E-1, which we will subdesignate 9-E-1, is a handwritten accounting of $150,000, dated May 16, 1986, is that right?

A That's correct.

Q Could you explain this document for us, please?

A Yes. What I've done is I've gone back through the bank statements and from the day that the money was wired into the account on 16 May 1986, and I've accounted for the full $150,000.

Q Could you run through it for us?

A Yes. On 16 May 1986, check number 1 was a $30,000 check written to American Arms and Electronics Engineering in Denver, Colorado; 16 May, also same day, another check for $30,000 was written to American Arms and another manufacturing company in Denver, Colorado to manufacture 1,000 receivers.

On 16 June 1986 we wrote check number 3 for $50,000 to CERETECH International.

Q Now, let's go through these. The first check and the second check, each for $30,000, were expended by the payees, is that right, in their efforts to make receivers?

A That's correct.

Q And it was those receivers that were seized by ATF?

A That's correct.

Q So, that was a total loss to the partnership of

$60,000?

A Well, there's still a note owed by American Arms that doesn't have to be paid until no later than December, 1988.

Q And according to your dissolution agreement, what became of that note?

A That note now is owned by Richard Secord and Larry Royer.

Q So, that's an asset of Secord and Royer?

A That's an asset of Secord and Royer.

Q To the extent that it is collectible?

A To the extent that it is collectible.

Q And there is the $50,000 check to CERETECH. What became to that money?

A Well, that's also a loan to CERETECH International. That check was originally written on 16 June. Then the check was -- a stop put on the check --

MR. DICKINSON: Could we go off the record?

(Discussion off the record.)

BY MR. HOLMES:

Q Now, as to the $50,000 amount, what became of that June 16 amount out to CERETECH?

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A That was a loan to CERETECH International. Richard Fincke asked me to replace that with a wire transfer on Monday the 19th, and that check was cancelled.

Then on the same day, 16 June, there was a check -- actually, chronologically, the check for $25,000 was written first. That should be check number 3, not check number 4.

Q Well, in any event --

A Okay. For $25,000 --

Q Sticking with the $50,000 amount, it was, in fact, transferred eventually by wire, not by check, to CERETECH, correct?

A That's correct.

Q And became an asset of the partnership and the firm?

A That's correct.

Q And that is also now an asset of Secord and Royer personally, is that correct?

A That's correct.

Q Pursuant to your dissolution agreement?

A That's correct.

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Q And your last conversation with Royer was that they were, in fact, pursuing the CERETECH investment, is that correct?

A That's correct.

Q Now, there was, on June 16, a $25,000 amount paid out to Ericson, and what was that for?

A That was an earnest money deposit for the Quinault Wood Project.

Q Have you spoken with Royer or Secord since your withdrawal from the partnership, about whether that project is going forward?

A I understand that they are pursuing that project.

Q And they are doing so without you, is that correct?

A Yes, as part of the termination agreement, they've taken on that project on their own.

Q And you have no further interest in the project?

A I have no further interest in the project.

Q Or in the $25,000?

A Or in the $25,000.

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Q Okay. Now, there is an August 15 cashier's check to Larry Royer and that is the $15,000 amount that you have previously mentioned as having been requested by Royer and Secord?

A That's correct.

Q And do you know what that was for and where it went?

A They just simply wanted that -- the money from the partnership returned to Larry, as a partner of Tri American Arms.

Q Why was the $15,000 amount selected?

A Well, that's what was left in the account at that point in time. If we add up 30, 30, 50 and 25, there was $15,000 left over.

Q And you transferred that by check?

A Yes, by cashier's check.

Q Now, on October 3rd, $18,369.74 was transferred into the account?

A That's correct.

Q And what was the purpose of that transfer?

A That was funds that after Sandy Ericson subtracted his legal fees from the 16 June check of

$25,000, that's what was left over in his trust account.

Q So, this is money coming back from the Quinault deposit?

A That's correct.

Q And on 16 December, that money was transferred to your attorney?

A To my attorney's trust account, that's correct.

Q And then in January, that was paid to Royer and Secord through their law firm, by your attorney, in a trust account, the trust account check, is that correct?

A That's correct.

Q With the exception of $3,000 which was reserved?

A That's correct, as per the termination agreement.

Q And that's the amount, $3,454.99 that your accounting ends with?

A I believe so. I think we subtracted $180 for legal fees from that, but that's what the accounting ends with, yes.

Q And the $3,000, approximately, amount was pursuant to your dissolution agreement and that is to protect you against grand jury and other expenses in relation to the seizure of the receivers?

A That's correct.

MR. DICKINSON: I'd say against any legal expenses -- that's how it's worded -- but not just grand jury -- and other entities. I worded that one broad enough, too.

BY MR. HOLMES:

Q So, the bottom line is that with the exception of a thin margin of insurance against your likely high cost of the investigation and everything, you have not a nickel to show for these ventures?

A No, that's exactly right.

Q And all of the money that remains and all of the assets that were produced by the money that ever went into that account are now the personal assets of Royer and Secord?

A That's correct.

Q Now we have the Tri Red Cedar Associates file, with the one document that I selected from it, which we will simply identify as number 12.

(Whereupon, the document was

marked for identification as
Exhibit No. 12.)

BY MR. HOLMES:

Q Item number 12 is your complete Tri Red Cedar Associates file in its original form?

A That's correct.

Q And it reflects the various business arrangements, agreements and contacts that you had from the cedar -- so-called Quinault Indian Reservation agreement?

A That's correct.

Q Much of which we have previously discussed and we won't rediscuss. And we have the CERETECH International, Inc. file, which has been copied and is now marked as Exhibit 13 in its entirety.

(Whereupon, the document was
marked for identification as
Exhibit No. 13.)

BY MR. HOLMES:

Q Now, does Exhibit 13 consist of the entire business correspondence, agreements and documents relating to the CERETECH International, Inc. venture?

A That's correct.

Q Could you briefly explain the business of CERETECH International, just a thumbnail sketch for the record?

A Yes. That was a wood project that was introduced by Dick Fincke from CERETECH International and -- I'm sorry -- CERETECH International was introduced to me by way of the Chamber of Commerce in Sterling, Colorado and the President of that company being Dick Fincke.

Q And within that?

A That was company that we'd loaned $50,000 to and, basically, they were to make a human consumption, high protein wheat supplement and product for use domestically and internationally, and it was an interest to the partnership because of contacts that Albert Hakim had with World Food Bank.

Q So, if I understand the chronology correctly, you had been put together with Richard Secord through Larry Royer after you had contacted Royer in relation to the American Arms opportunity, is that correct?

A That's correct.

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Q And then after meeting with Royer and learning that he had access to venture capital in the person of Richard Secord, you commenced to screen other business opportunities that you either had heard of in the past or were coming to your attention as time went on?

A That's correct.

Q And this particular opportunity came to your attention through the Chamber of Commerce in your area because the Chamber of Commerce was aggressively looking for business opportunities that might help develop industry in northeast Colorado?

A That's correct.

Q And so you brought this one back to Royer and Secord and ultimately to Hakim for their assessment as a possible moneymaking venture for the partnership to engage in?

A That's correct.

Q And that's how it got on the agenda for the June letter that you wrote to Hakim and then the July meeting in Seattle and the mid-July meeting in Washington, D.C.?

A That's correct.

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Q And, eventually, they decided that it was something that they could make money at, that their contacts in the Middle East and abroad would allow them the opportunity to tap the possibilities of the market, and they authorized $50,000 to go from Tri American Arms partnership to this venture, is that correct?

A That's correct.

Q Okay.

MR. REMSTEIN: You stated that very eloquently.

(Laughter.)

(Whereupon, the document was marked for identification as Exhibit No. 14.)

BY MR. HOLMES:

Q Okay. I'm handing you what is marked as Exhibit Number 14, and this is a copy of your Bio-Fine file, is that correct?

A That's correct.

Q Now, I wonder if you could describe for me, in similar fashion to the way we've just gone through CERETECH, what the business opportunity was and how you came to try to exploit it?

A Yes. Bio-Fine was a company that was also presented to myself as a company that could be relocated to our area, and it was a pharmaceutical company established to produce opium-derivative pharmaceutical materials for sale to pharmaceutical manufacturers. And I looked at their business plan and it was one of the projects I then presented to Richard Secordand Larry Royer.

Q And how did you get onto the Bio-Fine opportunity? What brought it to your attention?

A I believe that Bio-Fine originally was presented to myself by way of the state Commerce Department and by way of the Chamber of Commerce.

Q Did you know any of the principals involved prior to it coming to you through those channels?

A The principals of Bio-Fine?

Q Right.

A I've got a friend in Denver that eventually knew one of the principals, but prior to that time I didn't know the principals, no.

Q Your friend in Denver was who?

A Ronald Frino, a real estate brokerage agent.

Q And who did he know?

A Mr. Jack Hack.

Q What was Mr. Hack's relationship to the firm?

A He was a scientist, research scientist.

Q I gather these notes, handwritten notes --

A Well, basically, those are notes on how to finance Bio-Fine Pharmaceuticals. Those notes were before I actually introduced it to Tri American Arms.

Q And when did you first introduce it to Tri American Arms and through whom?

A Well, it had to be about the same time as the rest of the projects, so, in May -- I suppose, May or June of 1986.

Q Do you recall how you presented the opportunity and who you presented it to?

A Yes. I gave the business plan -- I had two business plans, and I gave the full business plan to Larry Royer, and then it was pursued -- he talked to Richard Secord about it, and that's why we began pursuing the project.

Q So you weren't present when Royer presented it to Secord?

A No, I wasn't.

Q And you heard back from either Secord or Royer that it was one of the ones they wanted on the final list?

A That's correct.

Q Do you recall talking to Secord about it at anytime, personally?

A Yes. I -- at our meetings both -- you know -- every meeting that we had, we talked about all the projects, and the meeting with Willard Zucker in Seattle, each one of these projects -- we spent two or three hours or more on each one, very detailed presentations.

Q And what was the presentation that you made there in Seattle, in financial terms, to Secord and Zucker?

A Well, basically, we were going to provide all the equipment, get the licensing for Bio-Fine, and continue to have an operating business with this business entity.

Q Financially, what was the capital necessary and how was it to be raised?

A There was approximately $1.5 million in equipment, $50- to $100,000 in legal fees to pursue the license, and then operating expenses, I suppose, another $500- to $750,000 for the business. So, we spoke about approximately $2.5 million for Bio-Fine.

Q Is this the $2.4 million figure that we've seen elsewhere?

A I believe so, yes.

Q And that $2.5 million, roughly, is money that was needed to be expended before any income was going to be seen?

A Yes, that's correct.

Q When you say there was $1 million in equipment, you're talking about in purchases necessary to get the equipment?

A Yes, exactly. That also included real estate.

Q So, you were going to have to find a location, get a building, purchase equipment, and begin production all on equity capital?

A Yes. The location had already been approved in Las Vegas by the Drug Enforcement Agency. Dr. Smith and Dr. Hack as well as their third partner, Vince Gordecon, had been working on this project a couple of years before it was presented to me.

So, a lot of their preliminary work had been completed, and I think you'll see that in the business plan dated July 31, 1986.

Q And what was the source of funds going to be, as you discussed it there in the Seattle meeting in July?

A Again, this was going to come out of investors that Albert and Richard and Willard Zucker spoke about, as one of the entities, one of the businesses we were going to have here in the United States.

Q Was it your understanding that all of this money was coming out of the so-called Arab Development Corporation, or were separate groups of investors?

A You know, it seemed like there were separate groups of investors. There were a number of investors and each one of them might have a different interest in a different enterprise. I felt like that it necessarily wasn't one big pool, that maybe there were different contacts for different businesses.

Q And who had control of these monies?

A Well, it seemed like Albert Hakim had control, as well as Willard Zucker. Each one of them seemed to have their own control. And I didn't feel after our third meeting, that Richard Secord really had control of the monies. It seemed to be more Albert Hakim's and Willard Zucker's position to get monies raised for these projects.

Q When was the third meeting that you're referring to?

A That would have been the Seattle meeting where everybody was there, July 2nd and 3rd.

Q And that's when you were introduced to Zucker?

A Yes, that's correct.

Q And was that the first time you met Hakim as well?

A No, I met Hakim at the second meeting, that would have been in June. That was June 23rd that I originally met Hakim.

The third meeting -- well, the second meeting with Hakim then was July 2nd, and then the third time I met him personally was on July 17th.

Q So, you had been under the impression that it was Secord that you were dealing with?

A Originally, I was under the impression, up

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until the July 17th meeting, that it was actually Richard Secord that I was dealing with.

Q And it was his money?

A And it was his money.

Q And the July 17th time period you were given to believe that it was Hakim's money and that Zucker had advisory role with Hakim and Secord as their sort of financial advisor?

A That's how I envisioned it.

Q Whatever became of Bio-Fine, did you ever put money into Bio-Fine?

A No, Bio-Fine --I understand that Thi-Ryder (phonetic) has funded that project at this point in time, but that is just hearsay, I am no longer pursuing that project.

Q What was Bob Dutton's relationship to the Quinault Timber project, do you know?

A No, Bob Dutton never had anything to do with that project while I was working with it.

Q When you met with him in mid-July of 1986, July 17th, was he introduced to you as somebody who had a financial stake in these ventures, or was he simply an

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STTGI employee who was there to give advice?

A Well, I didn't know whether he was an employee, or not, but he was simply introduced as a partner organization and I didn't spend over three or four minutes with him -- he handed me -- he had a chart of organizations, and Albert Hakim then handed it to me.

Q What do you know of an SRH Corporation?

A I don't know anything about that corporation.

Q Have you ever heard of it before today?

A I heard of that by way of questioning from Don Remstein, but I never heard it before that time.

Q I see, so other than what the House investigator asked you --

A I never heard of it.

Q Had you ever discussed with Secord or Hakim any venture, partnership involving Secord, Hakim and Royer, but not yourself?

A No.

Q Do you have a Telex in your office?

A No.

Q So you never communicated either backward or forward with Secord, or Royer, or Zucker by Telex?

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A That's correct.

Q Have you any knowledge of a Canadian Imperial Bank of Commerce account?

A No, I don't.

Q Was one ever discussed with you?

A No.

Q Was any bank account, other than the Credit Suisse bank account discussed with you by either Hakim or Secord, that is not located in the United States?

A No.

Q I gather from the paperwork in exhibit relating to the Quinault Timber project, that there was discussion on the $2 million minimum pre-sale. In other words, they wanted to know for sure that they could sell $2 million worth of timber, before they made their --

A That was discussed -- that was one of the contingencies that Albert Hakim wanted to put with Ed Herman, but I believe that is after -- I had gotten away from the -- they were dealing on that -- I heard that figure from Dick Fincke at a later date, the $2 million.

Q You are in touch with Dick Fincke because he is one of your local businessmen?

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A No, Dick Fincke is from Seattle, but basically, I called him from time to time, just to see what Secord and Royer were still doing with the Quinault Wood project, and also CERETECH International. I have a very good relationship by telephone with Richard Fincke.

Q Are you engaged in any other businesses with him, or --

A No, I am not.

Q Have you ever heard of an organization known as Hydra?

A No.

Q That is H-y-d-r-a.

A No.

Q You did talk about a separate manufacturing capability for laser sights with Albert Hakim?

A They mentioned that they worked on -- that Hakim and Secord had worked on a laser device, previous to our involvement with Tri-American Arms.

Q Was there a discussion of substituting their device for the so-called laser lock sight that was then being teamed with the American 180?

A That's correct.

Q And when did those discussions begin on that project?

A Well, those discussions were primarily with the Goffs. And, in fact, I believe the Goffs gave the laser locks to Albert Hakim to study and compare to the product that they were familiar with. But I didn't have anything to do with that, that was between the Goffs and Albert. I just knew that that was being transferred back and forth between them, the devices.

Q Well, whose property were the patents and licenses associated with product of the American 180 laser sights?

A Those were -- the patents were a subsidiary of American Arms and the laser lock was a part of American Arms, a research and development company.

Q What was your understanding with regard to Tri-American Arm's right to produce that weapon, independently of American Arms?

A The memorandum of agreement was our contract to be able to manufacture that seperately from American Arms.

Q You were receiving no rights to the patents?

A No, there were no rights to the patents.

Q So you were, if not a licensee, something like a licensee to produce the weapon?

A Actually, American Arms was producing the weapon, we were simply the marketing arm for them.

Q You were a financier in marketing?

A Exactly, exactly.

Q All right. If Hakim and Secord were contracting separately with another manufacturer to produce the American 180, would that have been a use of a partnership asset?

A I didn't know anything about that -- I guess ask your question in another way.

Q Well, I am sort of perplexed by your lack of knowledge in this area, because Hakim and Secord are your partners.

A Hakim was never a partner.

Q Well, excuse me, Secord was your partner and Hakim was an associate of Secord's. Let's just talk about Secord. If Secord were contracting through STTGI to produce American 180s with another separate manufacturer, what right did Secord have to do so, that you know of?

A There wasn't any right to do that. If, in fact, he was doing that, I didn't know anything about that. And our partnership really -- we were contracting to do 5,000 units, and basically, that was what I was locked in on. I don't know whether they were trying to do something outside that partnership. I have no knowledge of that.

Q If he was doing that, he would have had to obtain the right to do that, independently from the Goffs, independently of your partnership?

A Yes, that's correct.

Q Now, you said earlier that you are not familiar with a Four Ways Industries, Inc.?

A That's correct.

Q Are you familiar with any discussions with Secord or Hakim of an organization in the United States that specializes in the manufacture of out-of-production military equipment parts?

A No.

Q Do you know the name Greg Zinc?

A No.

Q Do you know the name Jacob Farber?

A No.

Q Have you ever been involved in any arms dealing at that, buying or selling in wholesale quantities, other than with American Arms?

A No.

Q Any defense-related industry?

A No.

Q Any industry outside the United States?

A No, I don't believe so, unless that includes mutual funds that invest in foreign companies. You are talking about manufacturing --

Q Yes. Let me show you what is now marked as Exhibit No. 15, a letter apparently sent to Mr. Albert Hakim, Stanford Technology Trading Group International but addressed to an organization known as SciTech Trading Group in Monrovia, Liberia, on the stationery of Four Way Industries, Inc. and signed by a Ronald C. Wade.

Do you know Mr. Ronald C. Wade?

A No, I don't.

(Whereupon, the document was marked for identification as

Exhibit No. 15)

Q This makes reference to an agreement, or an inquiry concerning interest in manufacturing a laser sight unit which you have developed. It is a product which we can manufacture and are very much interested to manufacture. And then it quotes manufacturing runs ad the unit price, all FOB Four Way, New Jersey, subject to obtaining the necessary export license.

Are you familiar with anything that would form the basis for such a letter to Mr. Hakim?

A No, I am not.

Q You never discussed the manufacture of those laser sights here in the United States with Mr. Hakim under the auspices of Tri-American Arms?

A No.

Q Let me show you a letter now marked as Exhibit No. 16 to this deposition, a memorandum actually to Mr. Secord from Mr. Dutton, memorializing a meeting of January 7th -- excuse me, Janury 12th, 1987.

(Whereupon, the document was marked for identification as Exhibit No. 16)

This is for a period of time after you had broken your association with Hakim and Secord, is that correct?

A That's correct.

Q All right, are you familiar with any discussion that would have formed the basis for such a memorandum?

A No, I am not.

Q So this memorialized meeting among representatives of Four Way, STTGI and Mr. Goff, Jr. is something that is entirely out of your knowledge, up until this moment?

A That's correct.

MR. DICKINSON: Could we go off the record here for a second?

MR. HOLMES: Sure.

(Discussion off the record)

BY MR. HOLMES:

Q Are you familiar with the name Frank Lucero?

A I have heard that name from Larry Royer, as one of the individuals now involved with Bio-Fine Pharmacueticals, yes.

Q Do you know from those conversations, were you

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told what role Lucero had in the Bio-Fine venture?

A It seems that he is involved with the capital phrasing for that venture.

Q Do you know anything more about Mr. Lucero?

A No, I don't.

Q Where he is from, anything like that?

A I have no idea.

Q As for Mr. Royer, I gather that your own cereal related business is no longer operational?

A No.

Q Do you have any other business relationship with Mr. Royer?

A No, no other business relationships.

Q Do you know anything about any businesses that he now has?

A No, I don't, except that they are pursuing Bio-Fine Pharmacueticals, and from what I understand, they continue to pursue the wood project, but I don't know of any other businesses, besides those.

Q And you don't know what the current state of CERETECH?

A I don't know.

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Q Other than what you have told us today, do you have any knowledge at all about Richard Secord?

A No, I don't have any other knowledge about him, except what we have talked about today.

Q There are no business opportunities, or financial transactions of any kind that he has discussed with you, or in your presence, other than the ones that we have talked about today?

A No, he has not.

Q Could I ask you the same questions with regard to Mr. Hakim?

A Yes, he hasn't discussed anything with me.

Q Did either Secord, or Hakim discuss with you any other arms dealing that they have ever done?

A No.

Q Did they ever give you to believe that they have contacts through which they could sell arms?

A Yes, I thought that they could sell arms. I had the feeling that they had the contacts to sell arms internationally.

Q Did they go into any details at all in that regard?

A No, simply that they had international contacts, and had used different countries that they had access to. Primarily, when we spoke about the different countries that the Goffs already had licenses for, they felt like they had contacts in some of those countries.

Q Was Saudi Arabia mentioned specifically?

A No, I think it was the Middle East, but not specifically Saudi Arabia.

Q And other than what you have told us about Mr. Zucker, the same question?

A Yes, I don't have any dealings, or any further dealings with Mr. Zucker.

Q Other than the discussions that we have talked about with regard to the Contras, were they ever brought up in your discussions?

A No.

Q Did Secord ever tell you that he was supplying arms to the Contras, or getting money from the supply of arms to the Contras?

A No, he never mentioned the Contras at all.

Q Did he ever mention -- well, I gather that he did mention close ties with the U.S. government, in terms of the Quad-Mount?

A When we talked about the Quad-Mount system, he had close ties with the U.S. government. In fact, in the study that you have with the M-180 and the United States government, I believe that Secord mentioned that he contacted the officer, or had someone contact the officer that did the study at Fort Benning.

Q Why did he do that, did he say?

A Simply to see how good the firearm was.

Q What did he report to you?

A That they had some problems at that time with the weapon locking up, and a couple other things about -- I don't recall the exact conversation. When I mentioned that to the Goffs, they said, well, those problems had been overcome, they didn't have those problems with that firearm anymore.

But it seems to me that Secord had actually contacted, or had someone contact the officer mentioned in that report.

Q The American 180 is strictly an anti-personnel type weapon, isn't it?

A Yes, as opposed to --

Q Like an anti-tank gun?

A Yes, anti-personnel, exactly.

Q And in its automatic form it is not a sporting weapon by any stretch of the imagination?

A No.

Q In effect, it produces an extremely rapid stream of .22 caliber bullets, is that right?

A That's correct.

Q And that's 1800 rounds per minute cyclical rate per brochure?

A Yes, that is correct.

Q So, in a quad mount it's four receivers functioning together, in tandem, all at once?

A That's correct.

Q So that's -- whatever it is -- it would be 30 rounds a second out of each gun, it is 1,200 rounds per second out of the quad mount?

A It would be 120 per second.

Q Right.

A Over 7,000 per minute, 7200 a minute.

Q What is that suitable for?

A I don't think you are going to hunt Bambi with

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that.

Q Well, obviously it is not a sporting weapon, but its marketability would be for massive repulsion of hordes of people, is that the idea?

A I don't know. You know, it is like any automatic weapon, M-16, or anything else, machine gun, they have tremendous fire power.

Q It is a fairly short-range weapon, though, isn't it?

A I think the range would be more than some of the higher calibers, you can actually -- the range is farther.

Q But it would be like rain --

A Sure, exactly, the impact would be -- right.

Q The primary purpose is what I am getting at, was strictly military-type?

A It is military-type purpose.

Q And military and quasi-military, or weapon of last resort in prison riots, or --

A SWAT teams.

Q Or something like that, a military weapon.

A It is not something that is carried by the

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average citizen, no.

Q And the briefcase model that Hakim refers to would be further limited to clandestine type activity, I gather?

A I would think so.

Q It is basically an assassination weapon?

A Yes. And security, it is probably also could be used for security.

Q You could call it an anti-assassination weapon?

A Exactly.

Q I could envision two people shooting at each other with their briefcases --

MR. HOLMES: Do you have any questions?

MR. REMSTEIN: No.

MR. HOLMES: I have no further questions. If I can ask you a general question, is there anything that you would like to add to amplify, clarify any of your statements, now is an opportunity for you to do that, or if you would like to confer with your lawyer, and touch up anything that you feel you may have either missed, or invertently misstated, or --

Let's go off the record.

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(Discussion off the record)

BY MR. HOLMES:

Q Have you had any contact with Larry Royer recently?

A Yes, I spoke with Larry, actually the 18th, which was Monday, yes, Monday -- okay, on the 18th. And he said he was very upset about the -- he saw a blurb on CBS on some questions that CBS had asked me. And I said, yes, that I had answered their questions truthfully and factually.

And he said that Secord said that I was a fiduciary, and I should not be talking about his account. And that if I was in Switzerland, I would be in jail. And he mentioned that he heard $1 million on the newscast, and I said, that's exactly correct, that is what we were going to -- the question posed to me by CBS was how much money was appropriated for American Arms, and I said $1 million.

And that was the end of the conversation.

Q How did he end the conversation?

A Well, he just says -- asked me if I had been subpoenaed to come to Washington, D. C., and I said, no, that I hadn't been subpoenaed, but that I was going to Washington, D. C. to tell what I knew.

Q How did he respond to that?

A His response was "Well, that's all you can do", or something very curt. "That's all you can do", I don't remember exactly.

I had another call coming in from New York, and I said, "I've got another call coming in, and I need to go".

Q What was his general tone of voice?

A Very hostile in the beginning, he was very nervous and upset about this press coverage.

Q And did he tell you how he knew that Secord had said that you were a fiduciary, and for that reason shouldn't be talking?

A No, he just said that Secord said that I was the fiduciary for that account and I should not be talking about the account.

Q He didn't tell you when he had that conversation with Secord, or how he knew that Secord felt that way?

A No.

Q And prior to that conversation, when did you talk to Larry Royer last?

A It has been a couple of weeks. Well, he called my office and I was out of the office last week, and I didn't return his call. But I suppose it has been a couple of weeks since I talked to him, I don't have it on these notes.

But he has called my office a number of times. I have been working on an oil exploration project, and I haven't been in my office very much for the last two weeks.

Q Have you ever previous discussed with Royer the fact that Secord was mentioned prominently in these various investigations?

A Oh, yes, when Secord first came out in the newspapers, in the investigations, I asked Larry what it was all about, and he just said, oh, it is nothing, that everything will be fine, it will all work itself out -- like it was no concern. He seemed to be a lot more concerned yesterday.

Q Did you discuss the investigation with Secord, meaning --

A I haven't spoken with Secord since, I don't know, September, October 1986.

Q Had his name come out in the press at that time?

A Yes, previous to that -- well, let's see, the last time I spoke with him was on returning the money, whenever that was. And I don't know when his name first began coming out in the press. It seems like it was towards the end of '86, wasn't it, November, December. So it would have been previous to that.

Since his name started coming out in the press, I have never spoken to him.

Q And have you spoken with Hakim since?

A No, I have not.

Q Have you spoken with any of the other people that you have talked about today, about the investigative end of this, putting aside the ATF investigation?

A No, except for my attorney.

Q I would like to make your chronology an exhibit, if I could, would that be all right with you?

A That's fine.

Q This is something that you have been referring

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to during your testimony, and I gather that you have confirmed these various dates through your records?

A That's correct.

MR. HOLMES: This will be Exhibit No. 17. And like the other ones, we will have the original back to you.

(Whereupon, the document was marked for identification as Exhibit No. 17)

MR. HOLMES: Well, I have no further questions.

The committee rules prohibit our dissemination of the transcript, so the only way you can review the transcript, in order to verify it, is here at the committee offices. And it will be made available in short order.

And I suppose I can make an attempt to make a copy available to you in Colorado, but in the past our policy has been that they don't leave the committee room, period, for the reason that the news media and everything are likely to get bits and pieces of it, if we let them go out to witnesses.

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And I tell you that as preparatory to the normal question of whether you want to review it, or not, prior to its becoming record?

MR. DICKINSON: I think it would be helpful to review it, just from the documentary and accuracy -- but I assume you would get a voucher for Don to come back and review it in D. C.?

MR. HOLMES: I can't tell you that, I don't know.

MR. DICKINSON: Of course, accuracy is the aim of the committee, I'm sure.

MR. HOLMES: You are absolutely right on that, but so is economy. In any event, we can try and work that out.

MR. DICKINSON: Let's see what we can do on that.

I would like to put into the record that, once again, my client has appeared voluntarily, at your request, but he has appeared with all of the documentation he has on the matter, that that documentation has been reviewed, prior to the formal deposition by the committee personnel. And that there is

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nothing outstanding that he has at this time, absent something that might be brought to our attention later, which we certainly have no idea of now.

MR. HOLMES: I wonder if you would exceed to a general request that if anything comes to your attention, that you would let me know?

MR. DICKINSON: I have no problem with that at all.

MR. HOLMES: Fine, rather than the normal standing subpoena method. And I am happy to put on the record that I am indebted to you for not only coming voluntarily and without immunity, or anything like that, but for coming very rapidly at our request, so that we can get rapidly to the bottom of this thing.

And with that, we will go off the record. Thank you.

(Signature not waived)

(Whereupon, the taking of the deposition of Mr. Don Maroatica was concluded at 6:00 p.m.)

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HSITS -173 /87

TOP SECRET/CODEWORD

DEPOSITION OF JOHN O. MARSH, JR.

Thursday, July 23, 1987

United States Senate
Select Committee on Secret
Military Assistance to Iran
and the Nicaraguan Opposition
Washington, D. C.

Deposition of JOHN O. MARSH, JR., called as a witness by counsel for the Select Committee, at the offices of the Witness, The Pentagon, Washington, D. C., commencing at 2:10 p.m., the witness having been duly sworn by MICHAL ANN SCHAFER, a Notary Public in and for the District of Columbia, and the testimony being taken down by Stenomask by MICHAL ANN SCHAFER and transcribed under her direction.

Partially Declassified/Released on 22 Jan 1988
under provisions of E.O. 12356
by N. Menan, National Security Council

4097

TOP SECRET/CODEWORD

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APPEARANCES:

On behalf of the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition:

JOHN SAXON, ESQ.

C. H. ALBRIGHT, ESQ.

On behalf of the House Select Committee to Investigate Covert Arms Transactions with Iran:

JOSEPH SABA, ESQ.

ROBERT W. GENZMAN, ESQ.

ROGER KREUZER

On behalf of the Department of Defense:

ED [illegible]PIRO, ESQ.

THOMAS TAYLOR, ESQ.

Office of General Counsel

COLONEL JOHN WALLACE

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PROCEEDINGS

Whereupon,

JOHN O. MARSH, JR.,

called as a witness by counsel on behalf of the Senate Select Committee and having been duly sworn by the Notary Public, was examined and testified as follows:

EXAMINATION

BY MR. SAXON:

Q Would you state your name, please, sir?

A John O. Marsh, Jr.

Q And, Mr. Marsh, what is your position?

A Secretary of the United States Army.

Q I believe you've been Secretary since February of 1981; is that correct?

A Actually since probably 29 January 81.

Q And previously you served four terms in the United States Congress from Virginia's Seventh District; is that correct?

A That's correct.

Q And you were Assistant Secretary of Defense for Legislative Affairs?

A That's correct.

Q And you served as the National Security Advisor to Vice President Gerald Ford?

A That's correct.

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Q And after that you served in the Ford White House when Mr. Ford was present as Counsellor to the President; is that correct?

A Exactly right, with Cabinet rank.

Q At the White House you chaired the President's Intelligence Coordination Group; is that correct, sir?

A That's correct.

Q Mr. Marsh, as you know, the matters that bring us here involve the arms sales to Iran and possible diversion of any proceeds from those arms sales to the contras. But before getting to those matters specifically I want to ask about a few process matters involving how the Army provides equipment and materiel to the Central Intelligence Agency, the process that's used, specifically the [redacted] the coordination with DOD, et cetera.

And to do that I want to start with some background. Let me introduce the first exhibit. I'll certainly give you time to read this because you probably haven't seen it in a while. This is a memorandum that you sent to Defense Secretary Weinberger on 9 May 83 dealing with sensitive DOD support to CIA special activities.

Let me just give you a minute to read that, sir.

(The document referred to was marked Marsh Exhibit Number 1 for identification.)

(Pause.)

A I believe Del Spurlock wrote this memo. He was General Counsel then. He's still here as the Assistant Secretary for Manpower. It seems to me he got a response to this.

Q Yes, sir, and that will be Exhibit 2. Have you read it?

A Yes. I've gone over it enough that I have a general familiarity.

Q Do you recognize this and can you verify that this is a memorandum you sent to Secretary Weinberger?

A That's correct. I did.

Q In a general sense, before any specific questions, is there anything in particular that triggered this or anything noteworthy that you remember that caused you to send it?

A I think what was happening at the time, Mr. Saxon, is that this was occurring at a time when we were having some significant problems [redacted]

Q

A

[redacted]

Mr. Weinberger was aware of this and was very helpful in that regard. And so this was an attendant type of problem that was producing some of the problems that you are getting at [redacted] So I wanted to surface it with him and this memo was drafted for me by the General Counsel of the Department of the Army, who put a good deal of time and study into it, whose name was Delbert Spurlock.

Q Is it fair to say that this memo captured and represented to Secretary Weinberger some of your concerns about these type of activities?

A It did, and that's why I signed it and sent it up there, because the concerns that are expressed here were not just mine in the Army. The General Counsel had raised it with me. In fact, he drafted the memo. But I would say to you that there were others in the Department of the Army, both military and civilian, who shared these concerns, because the Army ends up in many of these operations being a very key operating agency in carrying these things out.

So we may carry a greater load than others. I'm not sure of that because I don't know the scope of the Navy or the Air Force, but I do know that we are frequently called on to engage in these type of endeavors.

Q All right, sir. Let me, while the memorandum will be an attachment to the deposition, let me highlight a couple of things that are in it to set the course of the next few minutes of the discussion.

You indicate, and I quote: "With increasing frequency, due largely to the Presidential Findings relating to Central America, the CIA has been requesting DOD support which should be considered significant and raises some difficult policy and legal questions." You indicate there are three examples that you have attached at Tab A that evidence this point.

You continue in the second paragraph: "The purpose of this memorandum is to raise several issues regarding the manner in which CIA requests for DOD support are reviewed within the appropriate agencies of the Executive branch and are reported to Congress, if

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necessary. These types of issues have taken on special significance in light of the increased Congressional and media interest in this area."

Further, in the next paragraph you state: "CIA requests for DOD support are reviewed within DOD to determine whether DOD is willing to and capable of providing the requested support. There are, however, at least four important issues which may not be receiving sufficient attention in the review process either within or outside DOD."

You go on to talk about those, and let me highlight a couple of them. In the second paragraph of page two, halfway down, the memo states: "The CIA, DOD and the Department of Justice have agreed that foreseeable and significant DOD support to be determined pursuant to a reasonable litmus test will be noticed explicitly within the Presidential Finding and that all other support will be set forth in the scope paper which accompanies the Finding."

The next paragraph begins: "The second major issue relates to the breadth of Presidential Findings and the question of whether DOD support which is requested is consistent with and authorized by the Finding."

You continue with a particular example in which you signed off and stated: "Thus, while I executed

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the approval memorandum, I conditioned my approval upon a priority notification to Congress of the exact nature of the operation. For this and various other reasons, the Army raised objections to the support requested and it was eventually withdrawn by the CIA."

To continue with a couple other highlights, at the top of the next page: "Additionally, and perhaps most importantly, requests for sensitive DOD support must be reviewed for compliance with the statutory requirements relating to Congressional oversight of special activities. The CIA must, of course, inform the Congressional intelligence oversight committees of all special activities."

In the next paragraph you state: "Finally, with regard to Central America requests for support must also be reviewed to determine compliance with the Boland Amendment."

In the last paragraph on that page: "The problem ~~which~~ I perceive relating to these issues is the absence of a system or process by which they are addressed. Unlike the more formal process by which Presidential Findings are reviewed within the NSPG, the above issues relating to CIA requests for DOD support are reviewed for legality, if at all, in an ad hoc manner both within and outside DOD. Finally, within DOD I do not believe that the Deputy Under Secretary of Defense for Policy routinely solicits the review of the Office of General Counsel.

Because of the subtle but volatile legal aspects of the issues discussed above, I believe it is important that all significant requests for sensitive DOD support be reviewed in a consistent and systematic manner, to include an appropriate role for the Agency's legal advisor within and among all affected agencies."

In the next paragraph: "Within the Army I am pleased with the review system which has been established and all requests for Army support are submitted by the [redacted]

Finally: "Based upon the foregoing, I believe it is important that you encourage the establishment of formal intra and interagency procedures, including the participation of the Department of Justice, relating to the review of requests to support CIA special activities."

What I tried to do with those sections that I quoted was to capture the essence of what you put forward. Before asking you some broader questions probably I should give you Secretary Weinberger's response, which was dated 13 June 83, memorandum for the Secretary of the Army. I'll have this marked as

Exhibit 2.

(The document referred to was marked Marsh Exhibit Number 2 for identification.)

(Pause.)

You've had a chance to review that, sir?

A Yes. I have reviewed it and I remember having received it.

Q All right, sir. For the record, let me read a couple of relevant sentences into the record from Secretary Weinberger's response to you. He begins with, "Your 9 May memorandum on management of DOD support to CIA special activities raises significant points."

In paragraph three he states: "Your point concerning notification to the Congressional committees is well taken. The Deputy Under Secretary of Defense for Policy is responsible for action on these notifications after appropriate coordination with the DOD General Counsel, DOD Legislative Liaison, CIA, the Joint Staff, DIA, and the military departments. We must comply fully with all statutory and Presidential direction on such reporting.

"Beyond these requirements, I wish to be as diligent in informing the appropriate Congressional Committees as good management and division of authority between the Legislative and Executive Branches permit. However, I must recognize the primary responsibility of the DCI concerning decisions on reporting special activities to the Congress."

At the top of the next page: "Our current DOD process for staffing CIA requests for operational support through the special [redacted] is proper."

In paragraph three: "Legal counsel is readily available to all participants in this process. All proposals and requests for action in these areas referred to OSD are handled by the DUSD(P). The latter staff is especially experienced in and attuned to policy, procedural constraints and general legal issues pertinent to these activities. In addition, in order to ensure that a complete legal review is carried out all such requests will be referred to the Office of the DOD General Counsel for evaluation. In view of the institutionalized legal review, the establishment of additional intraagency or interagency review procedures to evaluate and advise outside the current interagency coordination process is not necessary."

I take it from that Secretary Weinberger felt satisfied with the system that was in place, and having that in the record let me ask you, without addressing specifically Project SNOWBALL, which was the Army's term for the TOW missiles which ultimately found their way to Iran, or Project CROCUS, the HAWK repair parts, are you happy with the system that was put in place, the [redacted] [redacted] system, the [redacted] the understandings between the Department of the Army and DOD and the Department of the Army and CIA for normally handling such transfers?

A [redacted] That would provide an even greater impetus to institute a change and reform and oversight and control [redacted] And these matters and problems were all reported to the Secretary of Defense, and I would say to you that Mr. Weinberger took a very keen interest in that.

He held meetings at his level in his office in which he personally participated in support of the Army's efforts to make very substantial changes, and he advised me on the phone, I can recall, one time in reference to that to do whatever was necessary to be done to get it straightened out. He was very concerned about it. Get it straightened out. That he would call or see whomever it was necessary in order to ensure that.

But we would then institute the Army program that would become better known and which you know as [redacted] [redacted] which has proved to be a very effective system for the management, for the approval and management of intelligence type programs.

Q This exchange of memoranda would suggest a great amount of sensitivity on your part to the issue of Congressional notification, the need for proper legal review. Secretary Weinberger's response would seem likewise to share those same concerns. And what you've just told us of subsequent events in light of the [redacted] SEA SPRAY-YELLOW FRUIT problems means that you even went further and improved and tightened up the system.

In your opinion, to go from the generic system and institutional structure in place for handling these transfers to the specific matters that our Committees are concerned with, would you say that the [redacted] was utilized or bypassed with regard to SNOWBALL and CROCUS?

A It was utilized in part. And there's one point I would like to go to and mention before that because you talked in terms of sensitivity to what was occurring here. And the point I'd like to make is that when you saw this exchange of correspondence in May [redacted] and we thought we had adopted a system that would handle any of the problems, handle all of our programs, this was done unaware that there was existing in the Army [redacted]

I would say to you that [redacted] I was not briefed on those two, nor were other senior civilian leaders, and in fact some very senior military people were not aware of its scope -- and by "senior" I mean most senior military people were not aware of its total scope.

I want to make that point because it demonstrates how difficult at times it is to construct a system and be certain that you have within that system the programs that are either in being or that someone might conceive.

Now in reference to the [redacted] I think it's important that the record be made that the [redacted] does not relate solely between the Department of Defense and the CIA. The [redacted] [redacted] is intended to be a system that will be used for sensitive types of activities and operations that might involve Treasury, Customs, Justice, NSA, some other organization in government, and to provide a means whereby they can avail themselves of certain resources in a way that it does not become public knowledge.

The [redacted] in the SNOWBALL operation you might say was used on the back side, meaning execution and delivery, but it was not used as far as the Army was concerned on the front side of processing for review, legal review, and approval. So it was not wholly exercised.

Q In your experience as Secretary since the time [redacted] and YELLOW FRUIT, are you aware of any other sensitive transfers to the CIA which have gone forward from the Department of the Army which have not gone through the full [redacted]

A The only two I know would be the ones you've mentioned, which would be SNOWBALL and the one involving HAWK, CROCUS, did not, but a portion of CROCUS did and was caught by [redacted]

Q By which you mean the follow-on request for additional HAWK parts?

A Right. That was captured. The system had by now become good enough that it was able to capture that follow-on request and indeed it disclosed that the big request hadn't gone through the system.

Q I appreciate your correcting the impression that I left on the record that the [redacted] exists solely to service the CIA, but as a practical matter my understanding is that in excess of [redacted] percent of the business that goes through the [redacted] would be for the Agency; is that correct?

A I don't know a percentage figure, [redacted] [redacted] As far as we're concerned, [redacted] relates to the Agency, although we have processed requests for agencies other than the Central Intelligence Agency.

Q Mr. Secretary, before we go into any further discussion on the particulars of these HAWK and TOW transfers, let me ask you, if you would, to simply hold forth for a moment or two on the issue of Congressional notification and let us have your views on that on the record.

You've been on that end of town and you've been in-between at the White House. You've had some very important responsibilities in the Congress, at the White

House, and here, and, as you know, there's a lot of disagreement over need for secrecy in covert policy, the need for notifying the Congress, et cetera. If you would share with us your views on these subjects.

A I lean very strongly toward and in support of Congressional notification and indeed Congressional liaison as you do these things because I recognize that ultimately to proceed with them without it will eventually, in my view, lead to their downfall because they will become disclosed for some reason or another.

My own experience with the leaking of information, I'm certain that leaks have occurred on the Hill, but I also know that leaks occur in the Executive branch of our government. My own experience in dealing with the Congress on sensitive matters has been very good. I have no problems. I have not encountered problems with Members or Committees with whom I've dealt on sensitive matters, and I've been doing that for a long period of time.

I did it on behalf -- I handled a great number of the notifications for the President when Mr. Ford was President, and I have great confidence in the Congress's ability to handle these. I do think the danger that occurs on the legislative side is the proliferation of numbers of people, which is a danger that you get also on the Executive side. And so to the extent that you can limit the number of persons to whom you make your disclosures you are actually, I think, providing a safeguard.

There has been a suggestion -- we went through this, these issues in 1975, and at that time, I think I'm quoting him correctly, Senator Mansfield, the Majority Leader of the Senate, met with the President, and Senator Mansfield advocated a single joint committee not unlike the Atomic Committee, and he felt that that would be one of the most effective ways to handle it.

There is a problem in the Executive branch when you have so many different bases to touch. One of those problems, I can tell you, in times of crisis -- and I've had to do this in times of crisis -- is time, being able to get to a number of Members and also being able to convey messages to them on highly sensitive matters in a secure fashion, particularly when they are beyond the Washington environs. And I have had to do that even when the Members were in foreign countries on matters that were of considerable national urgency. So the reduction of the membership would be helpful.

I can tell you there is an area that I would hope the Congress would look at because there is an area of ambiguity on the reporting and who has the duty to report. In a general way your current statute places the duty to report on the Director of Central Intelligence, the Secretary of State, the Secretary of Defense, and heads of other agencies engaged in intelligence activities.

There is a difference of view on that issue. The broad view is that that would mean the Secretary of the Army, because of the intelligence activities under the Department of the Army, and the narrow view is it would be the Secretary of Defense. We take the view that the burden or obligation is on the Secretary of Defense, and I think that's a very sound approach.

But it's one that is of concern. I think that we must be frank as we look at the question of notification. Is it secrecy? Is that what we are concerned about? Or is it a concern that those to whom we have consultation do not agree with what we seek to do? Now that's a different issue, and I don't think you can use secrecy to screen differences of view on policy.

There's a tendency, Mr. Saxon, I find looking back over a long period of time in dealing with matters that are sensitive, regardless of whether it's up at my level or down at a very low level, at the squad level, if it's secret it's legal. Now that should not be stated as a declaration. It should be stated as a question. If it's secret, is it legal?

Now if we were to approach that in that way and answer that question first, then it will make all of our efforts much more simple. But when you take the view that if it's secret it's legal, then all existing regulations and laws and norms and customs very frequently fall by the wayside, and people go forward with this objective because it's secret and therefore it's legal.

Q You indicated that one of the concerns about Congressional notification is that you perhaps get too many people involved. The flip side of that is that if you are concerned about the need to keep something secret you might have too few people involved. [illegible] you have a sense that that was part of what created our problems in these current matters, that there was a concern about letting too many people know and, therefore, too few people knew and we didn't use the systems we have in place to staff out things that should be staffed out or to debate policies that should be openly debated?

A I'm not sure of that. I see the point you are trying to make and I really can't argue with it. I don't know whether it was applicable here. I think in the present case those who were engaged in it felt that a few people who were actually running the program could make the final determination and bring about its final conclusion in a successful way and that to involve others, both in the Congress and the Executive branch, would invite frustration and perhaps failure.

Q Well, let me ask you about one particular individual who some Members of Congress at least believe should have been involved in this decision, and that's the Chairman of the Joint Chiefs of Staff. I can tell you from the fact that several of us in this room have interviewed and met with and deposed Admiral Crowe that he did not know we were in the business of sending arms to Iran until late June or early July of 1986 and that he found out more or less by accident. I don't think that's an unfair way to characterize it from what he's told us.

I don't know exactly who made the decision that the Chairman of the Joint Chiefs not be included, and I'm not asking you to be put in an awkward position of reflecting negatively on whoever that individual was, but I would simply ask you in a broad general sense, knowing what you know about the Iran initiative and the arms sales, is that the kind of thing that should have included at least the knowledge of, if not the input from, the Chairman of the Joint Chiefs?

A To look at the operation, I would have assumed that he had at least had knowledge, and the reason that I would have assumed that is that there were those in the Army at a high level who at least had some knowledge of the operation or transfer as it was occurring, although they did not know to whom the transfer was being made, because the Army had to execute that.

Therefore, I just would have assumed and did assume that he at least had the awareness that I had of the matter.

Q And would you also think as a matter of policy or practice if we go through this exercise again that the Chairman of the Joint Chiefs should be involved in such decisions?

A I would suspect that he probably would be the next time.

Q I guess the question is should he be?

A Yes, I think so. And I might mention a point of law that has occurred by virtue of the Reorganization Act. Under the Reorganization Act now the responsibility for the conduct of intelligence operations in the Department of the Army is the responsibility of the Secretary of the Army pursuant to the direction of the Secretary of Defense. You have an addition in the law there that relates to it, and then in the Reorganization Act there is also a provision that requires the Chief of Staff to advise the service secretary of actions that are taken in the JCS that impact on his service.

I mention those two points because they do have bearing now.

Q Let me go back to a point you alluded to a few minutes ago. In 1975 I think you said that Majority Leader Mansfield proposed or suggested the creation of a joint intelligence committee. That is certainly something that has been talked about in the course of our hearings. We will reach a point when we complete the hearings and write a report the two Committees will make recommendations. And while this is the kind of question we might normally ask you toward the end of this session it kind of flows from what we are talking about now.

Would it be your recommendation that our Committees should recommend to the Congress the creation of a joint intelligence committee?

A Yes. I would recommend that. I think that would be the effective way to go. And apropos my views about the Congress, in dealing with the Congress involving sensitive information the responsibility for the management and control and handling of that information by a Member is the responsibility of the Congress. And they must establish a system that they impose that discipline, because there is no other way to achieve an effective system.

You may recall back in '75, at that time one of the difficulties was a rule in the House which I think was called Rule 11(b), and in effect under Rule 11(b) any information that's made available to any Member of Congress, Member of the House, can be made, if he demands it, available to any other Member of the House. That was a very troublesome situation and there was an incident, as I recall, a serious one, where that particular rule was availed by a Member and proved decidedly unhelpful.

The only reason I cite the rule is that the Congress must structure its own mechanism within its own rules that handles those situations and accepts the position and takes a position that Members know and recognize that they must conform to certain standards in handling classified information. And only the Congress can discipline itself. So there must be a system developed to do that in the system.

Q One more general question of a policy nature. Is it your sense that if used as intended the [redacted] works?

A Yes. And to those that say you cannot conduct special operations and highly sensitive operations, I can tell you that we have a track record now for really several years of programs and projects that are currently being conducted, highly sensitive, and they are being effectively carried out. There was an approval mechanism. There is an oversight mechanism. And, very importantly, there are funding control systems. And it can be done, and we can show that it's being done.

Q If any critics were to say, but wait a minute; you're talking especially sensitive matters here and maybe you need to handle sensitive matters differently. I take it from what you are saying that we are currently handling some very sensitive transfers from the Army to the CIA through the [redacted]

A We are handling extremely sensitive transfers and we are handling extremely sensitive matters [redacted] and they are being done in, I think, a way that's consistent with what the Congress wants done.

Q And is it fair to say that the [redacted] was designed as the exclusive means to handle those transfers?

A Yes, it was. That was the reason it was set up.

Q Before I go into any particular matters maybe I should just stop and see if my colleagues have some questions of a general policy nature so we don't break the continuity.

BY MR. SABA:

Q In regard, sir, to the [redacted] we have had some testimony in our hearings that the system does not respond in a timely manner. There were examples alluded to, but it was not very specific in the testimony. The implication, however, in response to questions asked about why those procedures were bypassed in the case that we are concerned about was that these procedures were cumbersome and difficult. Specifically, as I recall, Colonel North said that former General Secord had been complaining vociferously about the procedures.

Without reference to their comments in particular, is it your opinion that the [redacted] [redacted] is capable of responding in a timely manner and, from what you do know of the particular transfers of TOWs in this case, I would like to hear your opinion as to whether had the system been used it could have responded within the time frame of the request that was made.

A The system can respond very, very rapidly. The system is structured in such a way involving the major issues where I may have to make the approval and the Chief of Staff have to make the approval that we can do that turnaround time. We had one I can recall [redacted]

[redacted]

We can show you an inventory of issues that have been rapidly handled and turned around. But sometimes things get slowed down because you ask the questions and people don't have the answers, and that's the reason for the system. And the system is not intended to be an expedient. It's intended to be an approval mechanism to ensure the integrity of the operation and that it's sound and that people have got their act together when they send it up here.

And very frequently -- very frequently -- delays in the system do not originate in [redacted] They originate in the agency that's creating it themselves and at the last moment they send us a request over here that they have been sitting on internally sometimes for weeks and expect us to turn it around in [redacted] when they have had it for a long period of time.

In the particular case here I think had you used [redacted] it would have been helpful. One of the problems that you get when you start bypassing systems that are set up, you get dislocations and other attendant and indirect and collateral problems that people never foresee. You must remember that we're dealing with an organization here that is a very institutional one with certain bureaucracies and that 95, 98 percent of what we do are done in the open with established norms and hand receipts and accountability that's drilled into the private soldier and the officer who lives with it all his life and can conform with it.

Now suddenly you move him into the sensitive world where you don't follow a lot of those procedures. When you begin to do a lot of these things orally and start transferring large quantities of materiel, you begin to lose any of the necessary history that you have to have for audit. And one of the problems that you've got with this system with this particular operation is going back and restructuring it as to who did what.

You see, if you have a sensitive system for handling the transfer of property, this means that there are ways that it can be tracked by your auditors. There'~~s~~re ways that the person who has to move it out of his warehouse knows that that's a legitimate request, so that when somebody comes along and takes an inventory he can refer him to an auditor or somebody else that accounts for the fact that that is okay and certifies it.

And when you move into the system and start doing things orally and there are no written records you have no accountability to which you can go back and structure an inventory, and then you end up with what did

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we send and a whole lot of other attendant questions.

BY MR. SAXON: (Resuming)

Q Just so the record is clear, [redacted] [redacted] includes a number of processes and, if I understand it -- and correct me if I'm wrong -- there are three different legal reviews, one that takes place [redacted] [redacted] and then it goes to the Army General Counsel. There's a readiness review. What you are saying is, notwithstanding that there are all of these checks and processes built in, it can still work very quickly.

A It can work very quickly and has, and we can demonstrate where it has. We can show you where it does not move as quickly as some would like, but in some of those instances the things that needed to be done or questions that needed to be answered are not answered, and sometimes they relate to cost, sometimes they relate to authority.

MR. KREUZER: Mr. Secretary, a little while ago you were talking about security problems that are encountered when this sort of thing occurs and people on the Hill get involved and staffs get into highly sensitive information and numbers grow and there is a large number of people that know things. And then the membership gets in. Sometimes Members say things maybe

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that they shouldn't say.

Has there ever been any kind of an official recognition on the Hill of this problem? Has this been discussed from time to time about what are we going to do about security up here when we get into very sensitive areas? Do you recall being involved in anything like that when you were there? Can you kind of give a little background on that and where the Hill is in that regard in solving those problems?

THE WITNESS: In my view, those Members to whom classified information was made available by virtue of their position or committee assignment I think there is a very good track record. I think, however, as a general rule in the intelligence field that proliferation of information beyond what might be termed a need-to-know basis is not a healthy thing for the intelligence community because you are increasing the risk of disclosure. It's just inevitable with the more people that you tell.

What I'm saying is that I have no problem with making classified information available to Members of Congress who have to know it, provided it is clearly pointed out to the Member in advance that there is certain of this information that is sensitive and it must be held on a close-hold basis.

I have breakfasts where I bring Members of Congress over here and we give them briefings, some parts of which are sensitive. I have been doing this for years. I have never yet been embarrassed by any Member of Congress -- and I can tell you the number is very close to 400 who have come over here -- by anything that was disclosed in this office. But I think it is a matter of management and handling.

One of the problems -- and I'm going back now 12 years -- I would say to you that one of the problems, and I'm sure that somebody will raise the same question with the [redacted] here, is you break down compartmentalization. There are safeguards in compartmenting intelligence data, as you know, and if you can maintain your compartmentalization it's very good.

There is a concern and we had a concern when I was on the House side. I handled the Intelligence Committee, the Select Committee headed by Mr. Pike and the one headed by Senator Church, and I worked with them for the President. One of our concerns was the accumulation of such a wide, broad variety of intelligence information in one place because we were breaking down compartmentalization and I would say to you in structuring something for the Congress you must think about compartmentalization.

I think regardless of the amount of intelligence information that I know it is still compartmentalized for me and is done intentionally.

[redacted]

And the maintenance of compartmentalization is very important to me. Proliferation runs the risk of breaking down compartmentalization. Now this is just getting over on the intelligence side.

MR. SAXON: But those are all very important points for us to hear about because they all are part of an undercurrent to these hearings and to the matters that we are looking at.

MR. KREUZER: Can you think of any instances where there has been a bitter experience, where we've had a situation perhaps something like what we're going through now, the Iran-contra, or even a situation where resulting revelations to the press by a Member have caused more problems, where a leak has been made?

THE WITNESS: I really don't want to deal with the press because I prefer not to get out of the field. But I can tell you that if you go back and look in the [redacted] you will find, I think, that certain classified information was moved from one Member to another and was disclosed, and I would say to you that I don't think it was a violation of any rule of the House that did it. I think it was a part of what I have referred to as the Rule 11(b).

And I think the House took certain steps to remedy that, or at least in part, when they established the Select Committee on Intelligence. But there were some examples. I could historically pull them out and get it to you. I don't want to mention names in this sort of thing because I want to be sure of my facts, but I'm not far off.

MR. KREUZER: Have you seen anything come out of this episode that has been damaging?

THE WITNESS: I can't think of anything on the Joint Committee that you have now. I think the members have been pretty well disciplined or have exercised a certain discipline in it.

I can tell you as an aside that not just Members of Congress but any individual who is the center [redacted] -- who is a center of interest and goes into a Congressional Committee and then walks out of that committee and is faced with a bevy of television cameras and reporters and is asked questions finds himself in an extremely difficult position in trying to make responses that are helpful as far as himself and avoids making disclosures.

That's a difficult position for a Member to be in, to come out of one of those hearings and be asked questions. That's a hard thing to do. But I think they've done it quite well myself. That's not easy.

MR. KREUZER: There's been some talk among some of the membership on the Hill about a smaller professional combined intelligence House and Senate staff. Did you ever get involved in discussing those ideas?

THE WITNESS: Well, the model that was suggested up there and was suggested by Senator Mansfield -- incidentally, the Mansfield view was shared by a number of people and I think I could tell you that President Ford, as I recall, supported the Mansfield view -- was to pattern something after the Atomic Energy Committee, where you have a small combined committee utilizing a highly professional small staff.

And I think that has a lot of merit, a lot of merit.

BY MR. SAXON: (Resuming)

Q Mr. Secretary, if my colleagues don't have anything further in this general policy area I'd like to move on to a couple of different matters. The first has to do with the HAWK and TOW transfers from Israel to Iran in late '85. They precede the involvement of the Department of the Army in SNOWBALL and CROCUS.

But I think they may be of some concern to you if you've not been made aware of some of the particular things that were being discussed, so I want to focus on that. Let me ask you first at what point you became aware that the Israelis had shipped TOW missiles to Iran in the latter half of 1985.

A I can't recall being made aware of it anywhere near that time frame myself. I'd really have to say that I don't think I became fully aware of it until the recent disclosures of the last six or eight months.

Q The same question, I guess the same answer, but with regard to the Israelis' shipment of what was intended to be 120 HAWKs to Iran and wound up actually being 18 HAWKs in November of 1985. When do you think you became aware of that?

A The same response. I was just simply not aware that that was going on.

Q There was an effort to, as I say, send 120 HAWKs to Iran and likewise there was discussion at one point of sending 3,300 I-TOW missiles to Iran from Israel with ultimate replenishment by the United States. I want to have you look at something which I will have introduced as Exhibit 3 and give you a moment to read that.

What you are looking at is a PROF memo from Colonel North to Admiral Poindexter. In the upper righthand corner you can see it's dated 11/20/85. I'll give you a moment to read that.

(The document referred to was marked Marsh Exhibit Number 3 for identification.)

(Pause.)

A Okay.

Q First of all, sir, for the record I would assume you have never seen this memorandum until today.

A No.

Q You weren't on Colonel North's distribution list for his PROF memos.

A No, I certainly wasn't.

Q Let me highlight just a couple of items that are in this memorandum. The first sentence states: "The Israelis will deliver 80 MOD HAWKs [redacted] at noon on Friday, 22 November." The first sentence of the next full paragraph: "There is a requirement for 40 additional weaps" -- abbreviation for "weapons" -- "of the same nomenclature, for a total requirement of 120."

The first sentence of the next paragraph: "Replenishment arrangements are being made through the MOD purchasing office in NYC." And the MOD is Ministry of Defense for Israel.

The next-to-the-last paragraph: "As soon as we have the release confirmed we need to move quickly with Defense to provide the 120 missiles the Israelis want to buy. They are very concerned that they are degrading their defense capability." -- the "they" there making reference to Israel.

Two questions, Mr. Secretary. Number one, were you ever made aware prior to these matters becoming public that we would need to replenish Israeli stocks for any HAWKs that were sent?

A No, I can't recall if we did, certainly not in this context. Whether or not there might have been some request in here for some foreign military sales for Israel that did not disclose this, I don't know. But I cannot recall that there was.

Q The second question, Mr. Secretary. I recognize that this may be hitting you cold and this is the kind of thing that would be staffed out, but do you have a sense right now that if we were to be asked to provide 120 HAWKs from Army inventories whether that would have any impact on readiness?

A That would be an evaluation that would be made by the Deputy Chief of Staff for Operations. I would tell you that that number would be sufficient that they would have to review that and come back with a recommendation whether it would or would not. I really can't say because I don't have that much of a grasp on inventory.

Q I can help you with my next exhibit, which I will ask be marked as Exhibit 4. I'll give you a moment to read it, but let me tell you what you are looking at. You are looking at something that we have come to call the TOW paper. This is a one-page memorandum or talking paper worked up at the request of Assistant Secretary Armitage by Mr. Glenn Rudd, the Deputy Director of DSAA in the late November-early December '85 time frame. And the top half deals with I-HAWKs, if in fact we were to consent to the Israeli transfer of 120 I-HAWKs to Iran, and the bottom half deals with I-TOWs, given that they were talking about 3,300 I-TOWs.

Let me give you a moment to read this.

(The document referred to was marked Marsh Exhibit Number 4 for identification.)

(Pause.)

A Okay.

Q Let me direct your attention to the I-TOW discussion. We know from this document and from PROF memos from Colonel North to Admiral Poindexter which have been made exhibits in our hearings that there was discussion of sending 3,300 I-TOWs to Iran by Israel, which we would then replenish. You can see the numbers there. If this information Mr. Rudd provided Secretary Armitage is correct, in the continental United States depot stocks we had [redacted] I-TOWs.

It says: "Based on the numbers, the impact on the Army of shipping 3,300 I-TOWs immediately would be serious but not intolerable. No missiles would have to be taken from troops. Based on the seriousness of the requirement and keeping in mind that the Army would receive TOW-II replacement missiles, it is likely that the Army would reluctantly acquiesce to immediate shipment of the entire quantity."

Let me ask you first for the record were you aware that there was any discussion in late '85 of 3,300 I-TOWs?

A No. I was not.

Q Second, Mr. Secretary, again this is the kind of thing you might want to properly staff out and have kicked around, but do you have a judgment today as to whether if we had [redacted] I-TOWs in our continental depot stocks, whether providing 3,300 would adversely impact readiness?

A Just based on my experience and reading this memo, the assessment here made by Mr. Rudd, it would be serious but not intolerable, I would suspect that the DCS/OPS would oppose that transfer.

Q On the grounds of readiness?

A Yes, because it says that they would be replaced with TOW-IIs, but there would be -- I think there would be some time before you would get your TOW-IIs and generally speaking the DCS/OPS takes a pretty tough position on the readiness, and he should take a tough position on it.

And from time to time I have overridden or the Chief of Staff has overridden that recommendation because we make a decision that the other interests override that particular issue. I would be glad to staff it out and find out, though.

(Pause.)

Q Mr. Secretary, for the record, let me ask if you've ever seen Exhibit 4 before today, and that's the TOW paper Mr. Rudd worked up?

A No, I have not. I can never recall having seen it. I'm not sure who Mr. Rudd is.

Q He's the Deputy Director of the Defense Security Assistance Agency.

A Oh.

Q Let me move from 1985 and the '85 shipments to the ones you've got a little more familiarity with, and that's the 1986 shipments in which the Army directly to the CIA provided 2,008 TOW missiles and a couple HAWK repair parts. Let me ask you first, sir, if you could tell us when you first learned that the Army had been tasked with providing TOW missiles to the Agency.

A First I would say to you that some months ago when this first came up I was confused as to when I first learned it, but I have concluded that my impression of when I knew it was wrong and that of General Wickham was correct, and I will explain it this way.

The activities that related to the shipment and what might be called an alert or warning order that the Army was going to be tasked to do this occurred on the weekend of roughly 17, 18, 19 January. That Monday was a Federal holiday, January 20. I thought I learned it Tuesday morning after that holiday, which was the weekend of the event, from Max Thurman, the Vice Chief of Staff of the Army.

But I did not learn at that time because I was in Germany over that weekend with Army units, and I came back on Monday and before I came back Max Thurman left for Germany, so there was no way that Max could have told me. Max came back the following weekend and, as I recall, he came into my office and mentioned to me -- told my Executive Officer he had to speak to me alone and indicated to me that he had received this request, warning order, that he had taken steps to implement it.

But John Wickham, the Chief of Staff of the Army, he was also out of the country and he'd come back in on the weekend. Max had briefed him before he, Max, left for Germany, and John Wickham had a little pencil note or his secretary did that John had stopped over here on Tuesday afternoon, which would be the 21st, and had mentioned to me that he'd gotten a heads-up that there was going to be a shipment of some missiles.

John did not make much of it and did not discuss it in great detail. He just said it was a shipment of, I think, TOWs, and did not know where they were going but we were turning them over. The manner in which John brought it to my attention really I didn't focus on it too much because I thought John was just telling me a JCS action or something like that occurred. When Max came in, I did focus on it because Max then said I've got this high priority order, nothing in writing. The knowledge that it's going to be done is very limited.

I really didn't even associate that with the same thing that John Wickham had given me five or six days before.

So my first awareness of it was really the 21st, from General Wickham, but focusing on it as a more significant action the following Monday probably when General Thurman came in and told me about it.

Q All right, sir. For the record, I'm correct in saying that you never knew the missiles were intended for Iran?

A No. In fact, later on one time John Wickham and I mentioned and debated where did we think they were going, and he had one country and I had another, and we both were wrong.

Q And in fact if we except General Colin Powell, who though he wears an Army uniform was serving at the time as the Senior Military Assistant to the Secretary of Defense, there was nobody anywhere in the Army who knew these were headed for Iran, correct?

A To my knowledge I know of no one in the Army that knew it, either military or civilian, unless there was somebody over on the NSC staff that was detailed over there.

Q Before I get to some of the chronological treatment of the TOW shipments, let me ask you in terms of a couple of broader issues to your knowledge was there ever any pressure put on the Department of Army or any of its civilian or military personnel to come up with a low price on the TOW missiles in order to create some residuals, as Colonel North would describe them?

A No, there was not.

Q Second -- this question goes just to the TOWs now -- we have, I believe Admiral Crowe told me, [redacted] basic TOWs in our inventory. If that figure is correct, would there have been any readiness impact, adverse readiness impact to us providing the 2,008 TOWs that we actually provided or, for that matter, if we had provided the full 4,508 that were initially requested?

A I don't think there would have been of the basic plain vanilla TOW.

Q After you found out about this requirement, what happened next from your personal standpoint? What was the next event that came to your attention or required your involvement?

A A couple of days, maybe a couple of weeks, maybe ten days or two weeks, went by. Maybe I'm confused. Either Vince Russo came by here to indicate some concerns about this transfer and I talked to him, maybe with my Exec, General Carmen Kavessa, with me, about it.

Q We should say for the record that was then

Major General Vincent Russo, who was the Assistant Deputy Chief of Staff for Logistics.

A I can't recall whether he came by and talked with me about it personally, but I think really what happened is that Vince's concerns were shared, I have since learned, by Major Simpson, who was assisting him, and it's my understanding and I've been told that Simpson went down to our General Counsel's office. I think he talked with Tom.

Q That would be Tom Taylor?

A Tom Taylor. And the matter was discussed with General Counsel and she sent me a memo raising some questions about whether we were involved in Congressional notification. And I sent a note back to Susan indicating what's the next step. What do we do? And so they came up here. We had a meeting in this office right where you are now, and Russo joined that meeting.

And the transfer and all was discussed and my concerns were you have the $1 million statute.

Q This would be the 1986 Intelligence Authorization Act?

A True we did not know that it was going out of the country, but nevertheless that transfer of that significance over in this intelligence area raised questions in our mind of Congressional interest or activity or awareness and also what Russo had interpreted as being somewhat of a restriction on making notes of it.

I suggested to Vince that in this transaction and because of his obvious concerns that he had about the matter that he begin to start making memcons of meetings he had -- and I think it was good that he did -- and that also ensure that those with whom he was dealing were aware that there was concern in Army about the Congressional role and knowledge, and as a part of that I believe General Brown sent a memo to General Powell that raised some of these very questions.

So I would say to you that the principal concern that was raised here was is there a Congressional role and need to know. If it is, who is going to respond to it. Word came back, Army, that will be handled by others than Army.

Q Mr. Secretary, you've alluded to several documents or memoranda and I am going to get them on the record as Exhibits in a moment. But to make sure we understand, to the best of your recollection who was at the meeting? You indicated yourself, Mrs. Crawford, General Counsel, and General Russo. Who else was there?

A I believe it would not have been unlikely that General Kavessa, the military executive for this office, would have been there and Tom. Were you there, Tom?

Q Was General Suiter there?

A We got the JAG. We got a representative from the JAG's office. General Suiter was there.

Q Anyone else that you can recall?

A No. I think it was a pretty small meeting. We were keeping a very close hold.

Q All right, sir. Let me show you and have this marked as Exhibit 5 a couple of documents that may be a little more familiar than Colonel North's PROF notes.

(The document referred to was marked Marsh Exhibit Number 5 for identification.)

(Pause.)

A This is the memo that I referred to that Mrs. Crawford sent me. I sent her back -- Susan, next step. And then it says "completed". That handwriting is my military exec. And the next step was a meeting with Suiter and Russo and Crawford with instructions. Russo, one, start making memcons. Two, go down and establish this point, make this point.

Q All right, sir. For the record, let me formalize what you have just said. The cover sheet in Exhibit 5 is a handwritten note from Tom Taylor in Mrs. Crawford's office, the Office of Army General Counsel, to Major General Russo. It says: "Concerning our conversation last week, we decided to ensure that Secretary Marsh was aware of the provision you and I discussed. Hence, the attached was delivered today."

And there is General Russo's handwritten note that he has seen that. Then Mr. Taylor attached to it Mrs. Crawford's memorandum of 13 February 86, as you have just said, that specifically referenced this statute that had the $1 million reporting threshold and talked about the concerns of notification to the Congress.

Now I have included two copies of that memo because there are marginal notes from different people: The first copy has a marginal note from General Russo dated 13 February 86 in which he says: "In discussion with Mrs. Crawford today she advised that where we support another agency they, not we, are responsible to make the necessary notifications."

Then the copy which you recall having seen of her memorandum has, as you said, your handwritten note: "Susan, next step." And then General Kavessa's note: "Completed". And there's the name of Tom T. up there, so I assume that would be Mr. Taylor.

Anything else we need to say about this document?

A No. I think that this would also precipitate a memorandum that General Brown sent.

Q We will get to both the Brown memorandum and the Russo memorandum next. I'll ask this be marked as the next exhibit.

(The document referred to was marked Marsh Exhibit Number 6 for identification.)

(Pause.)

Mr. Secretary, you indicated a moment ago when the meeting was held in your office you either suggested or directed that General Russo begin to keep some record, some notes as to what was transpiring.

A I believe he kept more than this, just this.

Q And you indicated that he was asked to put down on paper memorandum for record of this requirement. Now I would ask you if this appears to be at least one of the memoranda he wrote.

A Yes, it is.

Q It's dated 25 February 86, and let me just highlight one or two things that are in it. He begins by indicating that on 18 January the Army received this tasking. In paragraph four he talks about the Congressional notification requirement in the new legislation, and he states: "With regard to Congressional notification, this was determined to be the responsibility of the receiver, not the Secretary of the

Army."

The final paragraph indicates that he has been assured that that responsibility does not rest with the Department of the Army but that it rests with the recipient agency, the transferring agency, and that those individuals have been made aware of that responsibility. And then there's a handwritten note at the bottom in which General Russo writes: "Coordinate with General Powell on 5 March 86."

Do you recall General Russo telling you that, when he checked with General Powell, General Powell told him you are right? You guys don't have to notify the Congress; that's the CIA's responsibility and they are aware of it.

A I think Vince did report back on that meeting. That's my recollection. I think that he did. I can't vividly recall his coming down here and telling me that, but I think I got the word, and I think it got it from Vince. He may have told my military exec and my military exec would have told me. Or he may have told Susan and Susan told me. But I understood that this was the end result.

Q All right, sir. You mentioned a memorandum that you asked General Brown to draft, and I think you said it was also for the purpose of flagging this issue of Congressional notification; is that correct?

A I'm not sure that I specifically asked Art to do it, but he learned that I had suggested this practice and whether he did that at my request or on his own initiative I don't know. I think maybe he might have done it at his own initiative because by this time this was beginning to get difficult. Please note the date of the statute. You have a significant statute intervening in a very short time after this action was initiated and our lawyers picked that up.

Q Mr. Secretary, let me have marked and show you what will be Marsh Deposition Exhibit 7, and that is the memorandum that General Brown drafted, along with the cover memo that General Colin Powell put on it when he sent it forward to Admiral Poindexter. I will give you a moment to read all of that.

(The document referred to was marked Marsh Exhibit Number 7 for identification.)

(Pause.)

A It's a very pointed memo.

Q Mr. Secretary, let me start at the back of the exhibit with the memorandum from General Brown and simply highlight one or two points and see if this is consistent with your understanding. This is General Art Brown, at

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the time the Director of the Army Staff, writing on 7 March 86 to General Colin Powell, Secretary Weinberger's military assistant.

In the first paragraph he talks about the requirements under SNOWBALL. In the second paragraph he states: "This request for support circumvented the normal [redacted] for reasons of security. Yet the support exceeded the $1 million threshold established in the FY 86 Intelligence Authorization bill for reporting to Congress as a 'significant intelligence activity'."

In the third paragraph he says: "DOD support to CIA special activities establishes responsibility for notification of Congress of DOD support to the Agency with the Deputy Under Secretary of Defense for Policy. It also confirms the primary responsibility resides with the Director of Central Intelligence." And there he is specifically referencing the memorandum from Secretary Weinberger of 13 June 83, which was introduced as Exhibit 2, the response to your earlier memorandum.

And then he concludes with: "This memo is to assure understanding of statutory requirements should this issue be raised by one of the Congressional intelligence committees in the future", which we know has been done.

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General Powell put his cover memo on this, dated 12 March 86, and sent it to Admiral Poindexter, in which he stated: "The attached memorandum reflects the unease of the Army General Counsel's office over the transfer of items with which you are familiar." And then he goes on to talk, to reference that the Army has not been told -- excuse me, that the Army has been told that they had no responsibility for Congressional notification and that whatever notice does take place will be made at the appropriate time by the appropriate agency and simply that Secretary Weinberger had asked that he, General Powell, make Admiral Poindexter aware of the Army's concerns in the event that he wants to advise Director Casey or Mr. Meese.

We can see from the top page that Admiral Poindexter saw fit to give this to Commander Thompson and have it put with the Finding, which for the record was in the safe, and apparently no Congressional notification took place.

But this is the Brown memorandum; correct, sir?

A Is the what?

Q The Brown memorandum.

A That's right. That's the memorandum that I referred to written by General Brown, who was the

Director of the Army Staff.

Q And I think it's fair to say that this activity -- Mrs. Crawford's memorandum, General Russo's memorandum, and General Brown's memorandum -- clearly reflect the sensitivity of the Department of the Army to the need to notify the Congress. Is that a fair statement?

A Yes. I think it shows a concern that we had here on the need to keep the Congress informed, or that someone keep the Congress informed.

Q I think for a complete record we should probably establish whether anyone within the Department of the Army knew of the existence at the time these memoranda were generated of a Presidential Finding, which we know to have been signed by President Reagan on January 17, pursuant to which these transfers went forward, which expressly said that the Congress would not be notified.

So my question is, to your knowledge did anyone within the Department of the Army know that that Finding had been signed and that no notice was to take place?

A I did not know it. To my knowledge, none stationed here in the senior levels of the Department, military or civilian, knew it, and I say that because in dealing with General Thurman, dealing with General Wickham, the Under Secretary, Jim Ambrose, there was no indication by them of an awareness of it, because they had the same lack of knowledge that I had.

Q Mr. Secretary, I have no further questions on the TOW transfers. Maybe my colleagues do before we proceed to something else.

MR. SABA: No. I think you've covered the TOWs.

BY MR. SAXON: (Resuming)

Q Let me proceed to Project CROCUS, which was the name Major Simpson gave to the HAWK repair part transfers, since at the time that came forward the crocuses were pushing their heads up through the ground.

I ask you when you became aware that the Army had been tasked with the requirement to ship HAWK repair parts to the CIA which we now know were destined for Iran.

A My first knowledge of that would occur -- because I've kind of gone back and looked at the dates -- as I recall, probably in May, and again this was a case where John Wickham, General Wickham, the Chief of Staff of the Army -- and I would add that General Wickham was very solicitous in ensuring that I was informed of things that had transpired in the JCS -- and he came down and told me that he had gotten a request relayed to him. I think it was relayed to him while he was down in the tank.

Q Did he indicate who he got the request from?

A I believe he mentioned -- I happen to know that it came from Taft, but I think John told me that it came from Taft, Deputy Secretary of Defense Taft. And John said that this request had come through for HAWKs. He didn't know where they were going, as I recall, but we were asked to provide them and that we would do it, which, as I recall, was the case.

Q Was it your understanding at the time that this was in any way connected to or a follow-on connected with or a follow-on to the earlier TOW project?

A No. I had no knowledge. I had no idea that there was a relationship, nor, to the best of my knowledge, did he. And I think John would have told me if he did. I forget the quantities and the numbers, but he and I did not discuss it at any great length or anything. It was one of these things he'd been told to do it and do it.

Do you want to go on to how it did surface?

Q Why don't I simply ask you to tell us, after having found out, what the next event was that came to your attention or that involved you in any way?

A The matter then came back up later, as I recall, in the summer or probably in September because there were some additional parts that were related to the shipment, and it came in through [redacted]

Q A subsequent request from the CIA?

A Yes. And when it hit [redacted] they couldn't relate it to anything because they didn't know of the earlier shipment that had been requested in May -- that is [redacted] others working the staff action in the Department of the Army -- and when it came up to me in my office and to Wickham's office we didn't relate them because we didn't know where they were going.

So it became a difficult thing to get it approved because it was outside the system and [redacted] was trying to trace it and find out where it was coming from. And apparently it was never supposed to have been put, must not have been supposed to have been put in the system, I don't know. But eventually to resolve it, because here we were, sitting on a request from the Agency and they needed a response, we finally decided there's only one way to do this.

And that's to take the request and go to SecDef. And what happened, I believe Mr. Weinberger was gone, so my military exec --

Q General Kavessa.

A The two of us walked. I got on Taft's calendar and walked down to see him, and laid this out. And then I could tell that Will knew something about this I didn't know, because it seemed to make some sense to him. And he had, I think, his military exec in there and where it was left was let me take this. I'll get into this and he was going to raise it with the Agency. That was the last I heard of it. That was in October. And I still didn't know where it was or where it was going, but I commented to General Kavessa coming down the hall I believe that Mr. Taft knows something more about this than we do.

Q Mr. Secretary, I'll come back to this follow-on on the HAWK repair parts in a moment. I want to go back, though, to the earlier request and ask you a question about readiness. The request which came from CIA was for 234 HAWK repair parts, and as the requirement was worked, with Major Simpson being the primary action officer reporting to General Russo, they ultimately determined that there would be certain parts that would have a zero balance in the inventory if they fully met the requirement.

I can give you those numbers, but I don't know that it's relevant in one sense, in that there was no ultimate determination of readiness being adverse to all of them that had any depletion. But Major Simpson and General Russo ultimately concluded that a half dozen or so, six to eight, I think Major Simpson puts it at, items which would have been totally depleted if we had met this requirement were [redacted] that they would not provide them to the CIA.

There was what Major Simpson characterizes as some back and forth with his counterpart at the Agency and in essence the CIA overruled the Army and said you've got to provide them, and that's what happened. Was that ever brought to your attention?

A I can't say that it wasn't. I can't recall it. You see, what happens in these kind of requests, literally hundreds of transfers and transactions, I'm sure you realize, go through this office. This request for HAWK parts or for particular armaments is not unusual to come in and it's hard to focus on them and relate back to them. That would be Vince Russo's job to do that, and obviously he did it.

I could tell you by looking at [redacted] staff papers that came up with the HAWK parts request, because that would have had a readiness finding or readiness recommendation by the Army, and I'm sure it may have been brought to my attention in a staff finding -- I'm not sure -- but I don't know.

Q On the same readiness question let me move forward then to the follow-on request and get to the readiness impact there as determined by the system when it did [redacted] Let me give you the next exhibit and have this marked as Number 8.

(The document referred to was marked Marsh Exhibit Number 8 for identification.)

A I haven't even read it, but I would say the system said that impacts adversely on readiness.

Q That's correct, sir. This is a memorandum for you done by Mrs. Crawford.

A And this is in the October time frame.

Q On 10 October dealing with that follow-on request. I'll give you a moment to read that.

(Pause.)

A Yes.

Q All right, sir. If you notice, in the last full paragraph on page one of Mrs. Crawford's memorandum she indicates with regard to this follow-on request for HAWK parts: "The request, if supported, will result in an inventory zero balance on three items and impact on the Army's air defense capability. Both DOD Directive 5210.36 and the DASP set forth the policy of providing support to non-DOD agencies if it will not interfere with or impede the performance of missions and functions assigned to DOD."

At various points in the memo she discusses the procedure that would normally be followed with [redacted] [redacted] and some of the things that that review covers. Is it fair to say that in this case, because we went through the [redacted] and [redacted] with this part of the HAWK repair request that it was staffed out more along the lines of what it should have been?

A Yes. This type of response reflects that kind of review. But what was making it difficult, it didn't fit in and that's why eventually to resolve it I went down to OSD because people [redacted] could not figure where's this coming from and what does it support.

Q All right, sir. Let me ask you to look at another exhibit that is not directly related to SNOWBALL and CROCUS, and I want to make that clear so there's no confusion. It addresses the more general need for the [redacted] and the need to go through it. And that's a memorandum from General Vuono, then Lieutenant General, the DCS/OPS, and now I believe the Chief of Staff of the Army, on 14 April 86, and it was to the Director of the Joint Staff.

(The document referred to was

marked Marsh Exhibit Number [illegible]
for identification.)

(Pause.)

Have you read that, sir?

A Um-hum.

Q I just want to ask you if you agree with the statements that are in the first and third paragraphs. In the first paragraph General Vuono states: "The [redacted] provides a single channel for requests for support from the Central Intelligence Agency to the Department of Defense." Would you agree that it is the single channel or the exclusive channel for such transfers?

A Yes. That's by directive.

Q And then he further states: "The system protects extremely sensitive information from both inadvertent and deliberate disclosure, allows for covert support to Agency operations worldwide and ensures adequate service review of the request." Does that seem to be a fair statement?

A That's a very good statement.

Q In the final paragraph he states: "Requests which bypass the [redacted] would receive less service and no joint staff scrutiny that may impact on the services' warfighting capabilities. The Secretary of

Defense should be made aware that using ad hoc channels to support the CIA may degrade security overall and impair national security."

Now admittedly that's opinion. If you don't agree with that, you are welcome to say so. But I would just like to know if that in general --

A I share that view.

Q All right, sir. Do you happen to know, by the way, what triggered General Vuono's memorandum to the Director of the Joint Staff?

A No, I don't know what it is. I'd be interested. But something came up where he wanted to go on record, it's obvious, and my guess would be the Chief of Staff of the Army told him to do that. Do you know?

Q I think I've been told, but I don't recall and I simply wondered if you knew and we could get it on the record in case a Member asks us what that was all about.

[illegible] thought maybe you knew. I don't know, but that was Carl's concern, which I'm confident he shared with the Chief of Staff, and the Chief said, Carl, I think this is the way we want to have it. This is the new Chief of Staff.

COLONEL WALLACE: Let's go off the record.

(A discussion was held off the record.)

MR. SAXON: Let's go back on the record.

BY MR. SABA: (Resuming)

Q Sir, we understand that the TOW transfers to Iran in 1986 and, for the most part, the HAWK spare transfer bypassed [redacted] Can you offer your opinion as to, one, how that happened and, two, why?

A No. I would just have to say to you that [redacted] is one that's internal to the Army and the decision to do this was made at a much higher level where I recognize that people who are in superior positions have a right to override that and overrule it.

Q Do you know, sir, was it decided at a higher level to bypass the system?

A I don't know if the President felt that way. The order came down from the National Command Authority to execute the mission. I can see where there may be things of such national concern or, indeed, emergency that it would be that the National Command Authority may want them executed in this way. This is an internal administrative procedure which works, we think can work, very effectively.

Your other safeguard, if you bypass the system, the other safeguard is advising the Congress. Then the fact that you have bypassed it is no problem, you see. And I think the people that are senior can go past the system so long as you touch the other base. And

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had you touched the other base here it really would not have been a problem.

BY MR. SAXON: (Resuming)

Q Well, I think that question, though, is directed at -- and you may not know the answer to this, but I'll give you two possibilities -- is what happened here an example of a requirement coming in that's very sensitive, very close hold, and people just worked it knowing it was sensitive and close hold and it happened that in working it inadvertently they bypassed the [redacted] maybe not even being aware that there was a [redacted] at the level above General Russo?

Or is it that somebody consciously said, well, we've got this system and there are a lot of people involved in it, there are a lot of different checks, we don't want to go that route and they consciously said we'll do it another way?

A It could have been. It could have been the fact that we know, to speculate, that Mr. Weinberger had raised great concerns about it. Indeed, I believe in the Tower report North complains about making Defense move fast on this, and so it may have been don't have another opportunity to review and debate an issue that we've already decided on, which I say you could do that, so long as you tell those people sitting over there on

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Capitol Hill.

But I really don't know. I can't answer it because I don't know.

Q Mr. Secretary, we're ready to move to another of these fun topics, and that's YELLOW FRUIT. You alluded earlier in the deposition to [redacted] as I understand it, for what has become known as YELLOW FRUIT. There is a lot that we have that the Department of the Army has made available with regard to YELLOW FRUIT and, by the way, everyone's been very helpful in helping us piece together the record and see if it does directly or even indirectly connect up to the matters we are looking at. So we're not here this afternoon to get the full YELLOW FRUIT story.

But we do have a few questions for you. Let me ask first if in some brief or summary form you can tell us what it was and what its genesis was and simply how it sort of played out.

A YELLOW FRUIT was a sort of component of [redacted]

[redacted]

Q You said earlier that it was your understanding that it was created without your knowledge or approval at the time and, to some extent, without the knowledge, approval or at least full understanding of the Army's military leadership; is that a fair statement?

A My observation is that a number of the senior military leaders did not receive a full disclosure as to the purpose and intent of the organization.

Q Now I guess it's important to note that the system worked in exposing YELLOW FRUIT and fully investigating it and ultimately shutting it down. I think you have told us in previous sessions when we have interviewed you that there is still some ongoing investigation into these matters, one, to look at the money trail and see if all the dollars can be accounted for and, two, in light of something I'll come to shortly about Swiss bank accounts, there has been a worldwide check or audit of the use of bank accounts in covert activities, if I'm correct.

Can you update us on what has happened more recently with YELLOW FRUIT and the investigations by the

Army?

A I'm going to have to refer to it more in [redacted] [redacted] because there are elements that were very troublesome that went well beyond YELLOW FRUIT and went into SEA SPRAY.

Q SEA SPRAY was the [redacted]

A It was the [redacted] There is ongoing what we call a 15-6 investigation that covers the entire universe of [redacted] [redacted] operations, which is really in its final stages. As you know, there were criminal prosecutions. There was one in the United States Federal Court that resulted in a conviction of an officer. There were prosecutions through court martial procedures held at Ft. Myer of others that were involved, which resulted in convictions, and both, in the Federal and in the courts martial, are on appeal. You know that.

The question of the Swiss accounts, it appears, based on investigation -- I think some of your people took part in an investigation that we made -- involving principally an individual named Golden, that there was not a Swiss account.

Q Is that a final determination or is that what it looks like right now?

A I'm not willing to say that that's a final determination. I am not comfortable saying that. There is an area in that [illegible] which I'm not fully satisfied yet. I don't think it relates to this, the precise item you are thinking of on the Iran matter, but I would be glad to discuss it with you in other questioning, but not as a part of this record, if you would agree.

Q All right, sir. Let me introduce as an exhibit in this deposition the sworn statement that Mr. Golden, and that's William T. Golden, provided to the Department of the Army on 2 April 87.

(The document referred to was marked Marsh Exhibit Number 10 for identification.)

There are a couple of questions I want to ask you after you have had a chance to look at it.

(Pause.)

A Okay.

Q Mr. Secretary, I don't want to go through all of this. I simply was going to ask you if there had been any evidence to corroborate two points that Mr. Golden makes. One of them you have already addressed, and that was the Swiss bank account question, and I won't repeat what's in here. The document speaks for itself in terms of what Mr. Golden recalls might have happened in that regard, and I think you've addressed that adequately.

The second point he makes does more directly relate to supporting the contras in possible violation of the Boland Amendment, and that is -- and I won't read it verbatim -- Mr. Golden says he recalls that in the time frame of late August or early September [illegible] he saw a concept paper that talked about FMS sales [redacted] in which there would be an inflated list of items tha[redacted] [redacted] government wanted under foreign military sales with the express intent that they would not need all of them and some of them would go to the contras. And he says further in here that that was done more or less in contemplation of the Boland Amendment.

Let me simply ask you if either the earlier or more recent investigation of the [redacted] and, in particular, YELLOW FRUIT shows any evidence of attempts to violate the Boland Amendment through these particular covert [illegible]

A No. The matters that you raised there [redacted] all are new to me. I assume that you all have gone through and asked for production of any files or materials on FMS records.

Q Yes, sir. In fact, there were no FMS sales, [redacted] in those years. I think that's correct. But DSAA has provided us that, yes, sir.

A The only thing that comes to mind that falls into that same period of time would be [redacted] as to whether or not that was caught in the Boland Amendment application.

Q And that's going to be the last matter I'll get to. Let me say that that's all I want to ask about YELLOW FRUIT. Now if anybody else has a question on that, they can ask it. If not, we'll move on.

MR. SABA: No, John.

BY MR. SAXON: (Resuming)

Q Mr. Secretary, you mentioned [redacted] Let me ask you first of all, like I did with YELLOW FRUIT, if you can give us simply a capsule of what you understood [redacted] and what ultimately you understood to have happened with that request.

A Well, to go back, you recall in one of your earlier interviews when you concluded your last question it was, was there some other operation that I might be aware of that in my own mind I did not know whether or not it would have come without the application of the Boland Amendment, and I responded I could only think of one, which might have been [redacted] That was one that became a source of considerable concern as to how to handle it. By this time now [redacted] was beginning to work. And again there were questions raised about who tells Congress. We took a view that there was an obligation to do that. That view was not shared by others, but I think that perhaps the review and the study of that that occurred, coupled with other legislative actions that involved the Boland or Boland-type amendment, would mean that it was not fully implemented.

I think some portions of [redacted] [redacted] some parts of it were. There were some items of Army materiel which were furnished, and we have made an effort to identify those and will identify them for the record, those that we think were transferred.

Q Mr. Secretary, correct me if this is not a fair characterization. Is it accurate to suggest [redacted] [redacted] was an effort by the CIA to stockpile materials in anticipation of an cutoff which resulted from the Boland Amendment? It's been characterized that way. If that's not a correct characterization, correct me.

A I would tell you frankly I had not thought of it in those terms myself. I just assumed it was an effort to move equipment on down there, and if you look at that period of time, in the fall of '83, if you look at that time frame, there was considerable uncertainty as to what is the application of the Boland Amendment and does it apply. I think that, very validly, lawyers over here at this time -- Tom and I have talked about it since -- did not feel that the Boland Amendment would have been a limiting factor.

I think there are others who would disagree with that. But the other argument that has been made on that is [redacted] was being developed in anticipation of a more relaxed, lenient Boland Amendment, so that when it was to be shipped it would be in conformance with the statute. Some of the items went on down anyway, which is the reason I had not thought too much about it being a stockpile against the Boland Amendment.

Q Mr. Secretary, Mr. Albright, who is the [redacted] on the Senate staff, may have some questions.

BY MR. ALBRIGHT:

Q I think I just have one. Is it fair to characterize [redacted] as an example of when [redacted] [redacted] worked and shut down a project?

A I think it is one of the things that contributed to it. I think it played a major role in getting that reviewed at very senior policy levels.

Q The main problem or the main area that shut that down was the funding problem, is that correct -- whether or not it was going to be paid for out of Army funds or CIA funds?

A The Army kept drawing the issue. The Army kept approving the thing approved subject to notification of Congress, and I think that became a rather formidable challenge to the project. And even though we were ultimately overruled, that we were wrong, nevertheless raising that Congressional issue I think contributed to it, because, you see, [redacted] [redacted] raised the question of proper notification of Congress, and that was a great big piece of that action.

I think you are right.

BY MR. SAXON: (Resuming)

Q Mr. Secretary, I've only got one or two more questions. They are of a general and broad nature.

MR. TAYLOR: Could we go off the record for a second?

(A discussion was held off the record.)

BY MR. SAXON: (Resuming)

Q Mr. Secretary, a few minutes ago, in response to Mr. Albright's question you were talking about that the system worked because [redacted] Mr. Taylor has correctly pointed out that [redacted] as an office wasn't created until the fall of 1984, so I think that it's correct to say the forces that were in place within the building and within the Department of the Army that led to the creation of [redacted] the staffing, the legal checks, the review of covert operations -- it's those forces that led to the shutdown of [redacted] Is that a correct statement?

A That's correct, because there was being developed at that period of time the staffing and other review procedures that would ultimately find their final expression in [redacted]

Q I only have two final areas of inquiry. One is to look at what you described to us in an earlier session were some of the broad problems with YELLOW FRUIT, and that is you had some things taking place that were outside of the normal review system, that certain people who should have known about those operations didn't in terms of approval and understanding and monitoring, that there were some aircraft perhaps purchased outside of the system, there was some money that wasn't as accountable as it should have been.

I don't want to connect up something that shouldn't be connected, but you may have heard in recent testimony from Colonel North that he and Director Casey had discussions about creating an off-the-shelf, outside-of-the-system covert capability that would be outside of the CIA that would have rapid response capability, that would have a pool of funds that would obviate the need to go to Congress, et cetera.

If I have described those two things accurately, do you see any connection between the two? Do you think, given what we knew about the CIA role involving Colonel Longhofer and Mr. Enders and so forth with YELLOW FRUIT, is there any connection at all between what Director Casey and Colonel North wanted to create and what happened with YELLOW FRUIT?

A I can't prove that there is, but there are certain off-line dimensions that are associated with some of these activities that never fully got under way in the Army that are disturbing and troublesome because it is contradictory. It subverts the system and the institution, and those activities are well known and identified.

Acquisition of major items of equipment without using the normal Congressional processes is an example of what I'm talking about, and I think there are some other examples that are associated with those things that can be cited that are causes for concern. But I cannot prove that they are connected.

Q My final area of questioning is to ask you to wax philosophical for a couple of minutes. Given that you have served in the Congress and have served in the White House in various senior positions, as you indicated with Cabinet rank, and you have now been Secretary of the Army for six-plus years, and you've been in other sub-Cabinet positions in the Department of Defense, let me ask you two things.

One, what lessons you draw from the Iran-contra affair that would be valuable to our Committees, and, second, what recommendations you would have for us beyond what we talked about earlier about possibly a joint intelligence committee. First, what lessons should we learn from all of this?

A Well, I think the first lesson, it seems to me, that we see from the Iran thing is really one that gets into the very basic checks and balances and the role of the Congress. As members of the Committee have said themselves, you are not going to be able to carry out a successful policy without Congressional support because Congressional support represents your public support, and you must have it.

The other point is that in the world in which we live intelligence operations are vitally important. They are vitally important. And they are more difficult to structure at times in a free and open society, but they can be done. But if you short-circuit that system because it's difficult to establish those operations you are courting disaster to do it, and we see that.

On the other hand, if you structure them within our system of government where they are properly run, they can be effectively conducted, notwithstanding what people say. They can be. We are quite capable -- "we" being the country -- are quite capable of doing this, and there are many examples of it.

If you were to bottom-line it, there must be, one, a system to review for approval at the outset. In addition to a review procedure there must be a system for financial controls. There must be. Even if you approve a good system, if you do not have a financial control system I guarantee you it will get in trouble. It will get in trouble. And then, third, there must be a system of continuing oversight to ensure that you are complying with the original ground rules for approval.

And, finally, there must be a system to terminate and disband and stand down when, one, it's mission is accomplished, the purpose for which it was organized is no longer applicable, meaning they have been successful, or it has to be terminated for reasons of operational impossibility or some other problem of disclosure.

You've got to have those four things. Now if you go at it with that attitude and then decide that you are going to make the Congress your partner, I think you can structure some very successful programs to do it. I see -- you know, I hear some of these witnesses talking about well, nobody knows how to run these black operations. I have seen some of the black operations that these witnesses have been running, and they haven't been running them very well and they have caused us some enormous problems and a great deal of national embarrassment which could have been avoided.

Let me say something to you that I learned in '75 when I started working with the intelligence community in response to disclosure of information. There is in the Federal system a natural institutional resistance to disclosure, in any bureaucracy, whether it's Defense or over at Health and Human Services or Agriculture. My experience was you are going into an area of operation and you want to pull out information and there is resistance to that, and that's understandable.

This normal resistance, this human resistance that you get when you move into the national security field becomes extraordinarily difficult because you are dealing with careerists who, for five, ten, fifteen, twenty years, whatever their career life has been, have been trained not to disclose. Let me give you a little example I could give you off the record.

(A discussion was held off the record.)

THE WITNESS: When you are dealing with the national security field you are dealing with people who by the very nature of their occupation and by their training do not want to make disclosures of information, and Congress must recognize that. And that failure at what they think sometimes to be forthcoming is based on institutional training of people who do not think that those things should be made public, not to a Member of Congress, not to somebody who is even in the same agency but that is not compartmented for it.

They have the same resistance. So this application of security is a status thing. It's a big status thing, a lot of it. And we have a great tendency to overclassify too many items, and we make the classification too broad and apply it to too many people, and we ought to do less of both, in my view.

MR. SAXON: Mr. Secretary, that's all I've got. Let me see if anybody else has anything.

MR. SABA: I have nothing, sir.

MR. ALBRIGHT: Just to thank you.

THE WITNESS: I don't know if I've helped you or not.

MR. SAXON: You have. Let me say for the record before we shut down you have been very helpful, not just this afternoon but on previous occasions. For that matter, Mr. Winchester, Colonel Wallace, Ms. Crawford, everybody with whom we've dealt in the Department of the Army has been professional and as helpful as they can be, and it's made it much easier for our two Committees and we thank you.

THE WITNESS: Thank you.

(Whereupon, at 4:38 p.m., the taking of the

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instant deposition ceased.)

____
Signature of the Witness

Subscribed and sworn to before me this ________ day of
________________________, 1987.

____
Notary Public

My Commission Expires: ______________________________

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SECRETARY OF THE ARMY
WASHINGTON

9 May 1983

Marsh
Ex. #1
7/23/87 mao

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Sensitive DOD Support to CIA Special Activities (S)

(S) As you are aware, the Department of Defense (DOD) provides sensitive operational and logistic support to the Central Intelligence Agency (CIA). CIA requests for DOD support are often in furtherance of CIA special activities (covert action), as reviewed by the National Security Planning Group (NSPG) and approved by the President. With increasing frequency, due largely to the Presidential Findings relating to Central America, the CIA has been requesting DOD support which should be considered significant and raises some difficult policy and legal questions. Three examples of significant and sensitive DOD support which have been requested by the CIA in connection with its activities in Central America are set forth in Tab A.

(S) The purpose of this memorandum is to raise several issues regarding the manner in which CIA requests for DOD support are reviewed within the appropriate agencies of the Executive Branch and are reported to Congress, if necessary. These types of issues have taken on special significance in light of the increased Congressional and media interest in this area. This memorandum is not intended to challenge the validity or utility of covert action as a tool of foreign policy or to call into question the process by which Presidential Findings are reviewed and approved.

(S) CIA requests for DOD support are reviewed within DOD to determine whether DOD is willing to and capable of providing the requested support. Presumably, before such requests are made of DOD, they are reviewed within the CIA and other appropriate agencies, and determined to be legal and proper. There are, however, at least four important issues which may not be receiving sufficient attention in the review process, either within or outside DOD.

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(S) First, there is a question regarding the underlying authority by which DOD provides support to CIA special activities. There is, of course, no explicit statutory authority for the CIA to conduct or the DOD to support special activities. Rather, the National Security Act, the inherent powers of the President, a Presidential Executive Order, and the Congressional authorization and appropriation process are used to authorize special activities in general. The Economy Act is usually cited as the authority by which DOD supports CIA special activities.

(S) Rarely has authorization or recognition of the need for DOD support been acknowledged in the Presidential Finding supporting the special activity. Recently, however, in the context of the [redacted] charter, the Attorney General requested that DOD support to CIA special activities be authorized by the President. The CIA, DOD, and the Department of Justice have agreed that foreseeable and significant DOD support (to be determined pursuant to a reasonableness test), will be noticed explicitly within the Presidential Finding and that all other support will be set forth in the scope paper which accompanies the Finding. While not as definitive as explicit statutory authority, such an arrangement will substantially solidify the authority by which DOD provides support to the CIA on a case by case basis.

(TS) The second major issue relates to the breath of Presidential Findings and the question of whether DOD support which is requested is consistent with and authorized by the Finding. Presidential Findings, by necessity and nature, are broad in scope, though by no means limitless. Also, Findings are often operative for a number of years. Support requests must be reviewed to determine whether they are within the legal parameters of the Finding which the request seeks to implement. For example, I was concerned that the support requested pursuant to project [redacted] (described in Tab A) was beyond the scope and intent of the underlying Finding which related to [redacted] Thus, while I executed the approval memorandum, I conditioned my approval upon an a priori notification to Congress of the exact nature of the operation given conflicting mission statements in the transmittal memoranda between the participating agencies. For this, and various other reasons, the Army raised objections to the support request and it was eventually withdrawn by the CIA.

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(S) Additionally, and perhaps most importantly, requests for sensitive DOD support must be reviewed for compliance with the statutory requirements relating to Congressional oversight of special activities (50 U.S.C. § 413; 22 U.S.C. § 2422) and the War Powers Resolution (50 U.S.C. §§ 1541-1548). The CIA must, of course, inform the Congressional Intelligence Oversight Committees of all special activities. Similarly, the President must consult with and report to Congress whenever armed forces are introduced into situations involving the imminent threat of hostilities. Although the CIA is a civilian agency and is thus not governed by the War Powers Resolution, it is conceivable that a CIA special activity involving DOD support could invoke the reporting requirements of both 50 U.S.C. § 413 (with regard to the CIA special activity) and the War Powers Resolution (with regard to the involvement of U.S. armed forces). Moreover, even if the requested DOD support does not invoke the War Powers Resolution, it may invoke the 50 U.S.C. § 413 and Executive Order 12333 requirements to report to the Congressional Intelligence Oversight Committees.

(S) Finally, with regard to Central America, requests for support must also be reviewed to determine compliance with the Boland Amendment. That amendment was attached to the DOD Appropriation Act and prohibits the CIA or DOD from expending funds for the purposes of overthrowing Nicaragua or provoking a military exchange between Nicaragua and Honduras.

(S) The problem which I perceive relating to these issues is the absence of a system or process by which they are addressed. Unlike the more formal process by which Presidential Findings are reviewed within the NSPG, the above issues relating to CIA requests for DOD support are reviewed for legality, if at all, in an ad hoc manner, both within and outside DOD. It appears that support requests are reviewed by the Office of the General Counsel of the CIA only if the operational component believes that the request raises a legal issue. At the State Department, the Office of the Legal Adviser reviews all significant support requests; however, requests relating to Central America are reviewed exclusively by the Central American Management Core Group. Finally, within DOD, I do not believe that the Deputy Under Secretary of Defense (Policy) routinely solicits the review of the Office of the General Counsel. Because of the subtle, but volitile legal aspects of the issues discussed above, I

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believe it is important that all significant requests for sensitive DOD support be reviewed in a consistent and systematic manner, to include an appropriate role for the agencies' legal adviser, within and among all affected agencies. Also, such a system guarantees that the heads of each agency are aware of the scope of the agency's involvement in special activities.

(S) Within the Army, I am pleased with the review system which has been established. All requests for Army support are submitted by the [redacted] If the request is for major end items of military equipment; the initiation of or change to any specialized, unique, or sensitive service; the initiation of or change to programs involving substantial expenditures of money; or requests which require an exception to policy, I personally review and approve the request. [redacted] In light of the guidance I receive, I determine whether the Army should provide the requested support.

(S) Based upon the foregoing, I believe it is important that you encourage the establishment of formal intra and inter-agency procedures, including the participation of the Department of Justice, relating to the review of requests to support CIA special activities. In addition, because of the significance of the issues involved, the Army will continue to scrutinize for legality and propriety all arguably significant requests for military support implicating the issues noted above.

(U) If I can be of any further assistance, please feel free to contact me.

John O. Marsh, Jr.

Attachment

UNCLASSIFIED

[illegible] Significant CIA Requests for Support

[redacted]

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12 JUN 83

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THE SECRETARY OF DEFENSE

D 2884

WASHINGTON THE DISTRICT OF COLUMBIA

Marsh
Ex. #2
7/23/87 mao

13 JUN 1983

MEMORANDUM FOR THE SECRETARY OF THE ARMY

SUBJECT: DoD Support to CIA Special Activities (S)

(S) Your 9 May memorandum on management of DoD support to CIA special activities raises significant points.

(S) I agree that the procedure whereby foreseeable and significant DoD support will henceforth be noted in the Presidential Finding, with other DoD support requirements to be cited in the scope paper, provides a solid authority for our support.

(S) Your point concerning notification to the Congressional committees is well taken. The Deputy Under Secretary of Defense for Policy (DUSD(P)) is responsible for action on these notifications after appropriate coordination with the DoD General Counsel, DoD Legislative Liaison, CIA, the Joint Staff, DIA, and the Military Departments. Our current project -- in which your representatives are participating -- to identify significant and sensitive activities to be reported to me and, if necessary, to the Congress, should assist in decisions on matters in this area. We must comply fully with all statutory and Presidential direction on such reporting. Beyond these requirements, I wish to be as diligent in informing the appropriate Congressional committees as good management and division of authority between the Legislative and Executive Branches permit. However, we must recognize the primary responsibility of the DCI concerning decisions on reporting special activities to the Congress.

(S) Internal CIA review of CIA requests for DoD support I see as a matter for the DCIA. DUSD(P) recently discussed this and related concerns with senior personnel of that Agency and was assured that CIA would review its internal coordination to ensure proper consideration of legal issues before such requests are made to DoD.

Partially Declassified/Released on 10 FEB 88
under provisions of E.O. 12356
by K. Johnson, National Security Council

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Downgrade to SECRET
Upon Removal of Tab A

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Declassify on: OADR

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(S) Our current DoD process for staffing CIA requests for operational support through the special [redacted] is proper. All such requests should be handled through the [redacted] pursuant to DepSecDef letter, subject: Provision of DoD Cover, Operational and Logistic Support (U), 20 December 1979.

(S) In this connection, OSD and Joint Staff records indicate that the three examples you cited were properly handled by those offices; further details are at Tab A.

(S) Legal counsel is readily available to all participants in this process. All proposals and requests for action in these areas referred to OSD are handled by the DUSD(P). The latter's staff is especially experienced in and attuned to policy, procedural constraints, and general legal issues pertinent to these activities. In addition, in order to ensure that a complete legal review is carried out, all such requests will be referred to the Office of the DoD General Counsel for evaluation. In view of the institutionalized legal review, the establishment of additional intra-agency or interagency review procedures to evaluate and advise outside the current interagency coordination process is not necessary. An additional review process, independent of the department heads' regular policy and operations process, would be inefficient, and undermine agency heads' normal management and control.

(S) DUSD(P), with the Joint Staff, is working on a proposed DoD-CIA Memorandum of Understanding (MOU) on [redacted] and Other Support to CIA. This MOU will be coordinated with DIA and the Military Departments. The DUSD(P) will ensure that DoD implementin instructions accompanying the MOU emphasize the need for appropriat legal counsel at each level of decision.

(S) Your memorandum raises a question about the nature and extent of CIA direct exploratory discussions with elements of the Military Services concerning possible support before the matter is referred to the Joint Staff and OSD [redacted] I have instructed the DUSD(P) to evaluate this process to determine if he should undertake an increased role in the early stages of the process.

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REVIEWED
[illegible] DX-2

From NSOLN --CPUA Date and time 11/20/85 21:27:39
To: NSJMP --CPUA

*** Reply-to note of 08/31/85 13:26

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Marsh
Ex. # 3
7/23/87 mas

11[illegible]

N 23724

NOTE FROM: OLIVER NORTH
Subject: PRIVATE BLANK CHECK
Wrap Up as of 2030 EDT.
The Israelis will deliver 80 Mod HAWKS [redacted]t noon on Friday 22 Nov. These 80 will be loaded aboard three chartered aircraft, owned by a proprietary which will take off at two hour intervals for Tabriz. The aircraft will file for overflight through the [redacted] enroute to Tabriz from [redacted]. Appropriate arrangements have been made with the proper [redacted] air control personnel. Once the aircraft have been launched, their departure will be confirmed by [redacted] who will call [redacted] who will call [redacted] [redacted] who will direct [redacted] in Beirut to collect the five rpt five Amcits from Hizballah and deliver them to the U.S. Embassy. There is also the possibility that they will hand over the French hostage who is very ill.

There is a requirement for 40 additional weaps of the same nomenclature for a total requirement of 120. $18M in payment for the first 80 has been deposited in the appropriate account. No acft will land in Tabriz until the AMCITS have been delivered to the embassy. The Iranians have also asked to order additional items in the future and have been told that they will be considered after this activity has succeeded. All transfer arrangements have been made by Dick Secord, who deserves a medal for his extraordinary short notice efforts.

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under provisions of E.O. 12356
by K. Johnson, National Security Council

Replenishment arrangements are being made through the MOD purchasing office in NYC. There is, to say the least, considerable anxiety that we will somehow delay on their plan to purchase 120 of these weapons in the next few days. IAW your instructions I have told their agent that we will sell them 120 items at a price that they can meet. I have further told them that we will make no effort to move on their purchase LOA request until we have all five AMCITS safely delivered. In short, the pressure is on them.

Tomorrow we will dispatch a covert hostage debrief team to Wiesbaden, under cover of an exercise. [redacted] EUCOM will be told to prepare a C-141 for four-hour alert to pick up any hostages who may be released over the weekend. All of the parties above will be told that we have info (from the same source which advised us of Wier's release) that some, if not all, AMCIT hostages will be turned over [redacted] between now and Sunday.

As soon as we have the release confirmed, we need to move quickly with Defense to provide the 120 missiles the Israelis want to buy. They are very concerned that they are degrading their defense capability, and in view of the Syrian shoot-down yesterday the PM has placed considerable pressure on both Rabin and Kimche for very prompt replacement. Both called several times today.

There is the distinct possibility that at the end of the week we will have five Americans home and the promise of no future hostage takings in exchange for selling the Israelis 120 Mod HAWKs. Despite the difficulty of making all this fit inside a 96-hour window, it isn't that bad a deal -- [redacted] Warm regards. Recommend pass to RCM after review. North.

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No Date

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Marsh Ex. #4 7/23/87 mas

U 21524

PROSPECTS FOR IMMEDIATE SHIPMENT OF I-HAWK and I-TOW MISSILES

I-HAWK

- There are 164 missiles available at Red River Arsenal--75 intended for UAE and 84 for Korea. The missiles have not yet been lot acceptance tested, but there is a very low risk of failure. The missiles will be at Red River until about April 1986 for testing.

- There would be no impact on the UAE if we ship their 75 missiles. The program has slipped in other ways, and can be accommodated within the normal production lead time for replacement missiles.

- Korea would have to be consulted to ascertain the impact on their program, if it is necessary to ship any missiles in addition to the 75 mentioned above. Procurement lead time to replace Korea's missiles would be about 33 months.

- To the best of our knowledge, all of U.S. Army I-HAWKs are with units and should not be considered from diversion.

- Unit replacement price of HAWK missiles is about $437.7K; total package price for 50 would approximate $22.5M; for 100 about $45M. Package prices include FMS surcharges.

I-TOW

EXHIBIT DOD-9

- Army has about [redacted] TOWs (including 40,000 I-TOW) on hand, against a distribution requirement of about [redacted]. About 12,900 I-TOW missiles are available in CONUS depot stocks.

- Based on the numbers, the impact on Army of shipping 3,300 I-TOWs immediately would be serious but not intolerable. No missiles would have to be taken from troops. Based on the seriousness of the requirement, and keeping in mind that the Army would receive TOW-II replacement missiles, it is likely that the Army would reluctantly acquiesce to immediate shipment of the entire quantity.

- Unit price of the replacement TOW-II missile is about $12,200; total package price would approximate $42M, with FMS surcharges.

- Delivery from production of TOW-II pay back missiles to the Army would occur about the beginning of CY 1988. If necessary--though this is not recommended--approximately 2,000 unallocated TOW-II missiles could be delivered from SDAF to Army in second quarter CY 1987.

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(1971)

13 Feb 86

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Marsh
EX. 5
7/23/87 mDD

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DEPARTMENT OF THE ARMY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON

13 Feb

MG Russo DCSLOG.

Concerning our conversation last week, has [illegible] provide to [illegible] [illegible] we decided to ensure that Secretary Marsh was aware of the provision you and I discussed. Hence, the attached was delivered today.

Tom Taylor
x 50502

[redacted] Declassified/Released on 11FEB88
under provisions of E.O. 12356
by K. Johnson, National Security Council

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D 2916

DEPARTMENT OF THE ARMY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, DC 20310

REPLY TO
ATTENTION OF

13 FEB 1986

MEMORANDUM FOR THE SECRETARY OF THE ARMY

SUBJECT: Support to Intelligence Operations

During a recent review of an issue in our office, we noted a significant provision in the Intelligence Authorization Act for Fiscal Year 1986 that we wanted to call to your attention.

During Fiscal Year 1986, the transfer of defense articles or services exceeding one million dollars by an intelligence agency to a recipient outside that agency is considered a significant anticipated intelligence activity for the purpose of reporting to Congressional intelligence oversight committees. In addition, an intelligence agency may not transfer any defense articles or services outside the agency in conjunction with any intelligence or intelligence-related activity for which funds were denied by the Congress.

These provisions appear to reinforce our view of the importance of Congressional notifications in connection with support to intelligence operations.

[redacted] Declassified/Released on 11 FEB 88
under provisions of E.O. 12356
by K. Johnson, National Security Council

Susan J. Crawford

Susan J. Crawford
General Counsel

N.B. In discussion with Mrs Crawford today, she advised that where we support another agency, they -- not we -- are responsible to make the necessary notifications.

13 Feb 86

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DEPARTMENT OF THE ARMY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, DC 20310

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~~Start - Next Step~~
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13 FEB 1986

MEMORANDUM FOR THE SECRETARY OF THE ARMY

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[redacted] Declassified/Released on 11 FEB 88
under provisions of E.O. 12356
by K. Johnson, National Security Council

Susan J Crawford
Susan J. Crawford
General Counsel

NOTED BY
SECRETARY OF THE ARMY

Army

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DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, D.C. 20310-05

25 Feb 86

[redacted]
7/83/ mao

DALO-ZB

25 Feb 86

[redacted] Declassified/Released on 26 JAN 88
under provisions of E.O. 12356
by K. Johnson, National Security Council

MEMORANDUM FOR RECORD

SUBJECT: Support for Intelligence Activities (U)

1. (S) On 18 January 1986, The Army was tasked to provide support in terms of 3504 (later increased to 4509) missiles. The task was to turn these items over to the receiver at Redstone Airfield. Use and destination was unknown. The task would be executed upon receipt of certification of funds by the receiving agency.

2. (S) The first phase of the task, delivering 1000 missiles, was not executed until 13-14 Feb 86, due to initial delay in certification of funds by the receiving agency.

3. (C) During the course of coordination with OSD (MG Powell) and OSAGC, questions were asked as to the responsibility for end item usage. This was identified as a responsibility of the receiver.

4. (C) On 7 Feb 86, the new law (The Intelligence Authorization Act for Fiscal Year 1986) which required Congressional notification, in certain circumstances, became known. Coordination was accomplished with the Office of the Army General Counsel (OSAGC) as to the Secretary of the Army's responsibility. This was determined to be a responsibility of the receiver, not the Secretary of the Army. This position was later confirmed by the Army General Counsel.

5. (S) The notification requirement, while clearly to be satisfied by the receiver, places the Army in a difficult position. We believe the notification must occur, and as the provider, believe the receiver must be advised that notification is the responsibility of the receiver, and must be accomplished. I have discussed this with the Office of the Secretary of Defense; they have assured me--and asked that the Secretary of the Army be assured--that the receiver is fully aware of its reporting responsibility.

Coord with
Gen Powell on 5 Mar 86
VMR
5 Mar 86

Vincent M. Russo
VINCENT M. RUSSO
Major General, GS
Assistant Deputy Chief of
Staff for Logistics

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29 Nov 86

1/10/87 mas

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Marsh
Ex. #7
7/23/87 mas

N 9897

Paul,

3/12/86

Put this with the finding

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1 Feb 83

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OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON D C 20301

N 9899

12 March 1986

John

MEMORANDUM FOR ~~VICE ADMIRAL~~ POINDEXTER

The attached memorandum from the Director of the Army Staff is self-explanatorv. It reflects the unease of the Army General Counsel's office over the transfer of items with which you are familiar. As you know, we have been handling this program on a very close hold basis, and the Army has been told nothing with respect to destination. Per guidance received from NSC, the Army has been told that they have no responsibility for Congressional notification. The Army has also been told that whatever notifications are to be made will be taken care of at the appropriate time by the appropriate agency and that the Attorney General has provided an opinion that supports this position.

The Secretary asked that I make you aware of the Army's concerns in the event you wish to advise the DCI or the Attorney General.

Colin L. Powell
Major General, USA
Senior Military Assistant
to the Secretary of Defense

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under provisions of E.O. 12356
by K. Johnson, National Security Council

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DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF OF STAFF
WASHINGTON D C 20310

N 9900

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7 MAR [illegible]

Colin

MEMORANDUM FOR THE MILITARY ~~AS~~SISTANT TO THE SECRETARY OF DEFENSE

SUBJECT: Congressional Notification of Significant Intelligence Activities (U)

1. (TS/NOFORN) On 18 January 1986, the Army responded to a verbal tasking from your office to provide 1,000 TOW missiles to the Central Intelligence Agency with a contingency for 3,509 more at a later date. The first 1,000 missiles were delivered on 14 February 1986 to the CIA.

2. (TS/NOFORN) This request for support circumvented the normal [redacted] System for reasons of security, yet the support exceeded the $1 million threshold established in the FY86 Intelligence Authorization Bill for reporting to Congress as a "significant intelligence activity." Funds in excess of $3.5 million were provided by the CIA to reimburse the Army for the first 1,000 missiles. Billing and payment will occur within 60 days, or when all missiles are delivered, whichever is shorter. The Agency expects to complete the project within 60 days.

3. (TS/NOFORN) SECDEF memorandum of 13 June 1983, subject: DoD Support [redacted] (S), establishes responsibility for notification of Congress of DoD support to the Agency with the Deputy Under Secretary of Defense for Policy. It also confirms that primary responsibility resides with the Director, Central Intelligence. In the case of the TOW missiles, the Army understanding on responsibilities for notification conforms with your June 1983 memorandum.

4. (TS/NOFORN) This memo is to assure understanding of statutory requirements should this issue be raised by one of the Congressional intelligence committees in the future.

5438

Art
ARTHUR E. BROWN, JR.
Lieutenant General, GS
Director of the Army Staff

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under provisions of E.O. 12356
by K. Johnson, National Security Council

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AGENT'S INVESTIGATION REPORT
CID Regulation 195-1

ROI NUMBER 0012-87-CID001

PAGE 1 OF 1 PAGES

DETAILS

BASIS FOR INVESTIGATION: About 0815, 6 Apr 87, this office received a request for assistance from Mr. George PIERCE, Office of the Army General Counsel, Pentagon, Washington, DC 20310. The request was to re-interview Mr. William T. GOLDEN and ask him questions which were generated by a review of his statement to CID on 2 Apr 87. The concern is whether GOLDEN, while working for Business Security International (BSI), knew and had dealings with LTC Oliver NORTH or any other individuals at the National Security Council (NSC).

NARRATIVE:

1. Interview of Witness

1.1 Between 1520 and 1534, 6 Apr 87, GOLDEN was telephonically interviewed by SA CANTRELL via secure communications. GOLDEN related the following. He did not recall being introduced to NORTH and doesn't think they ever formally met. He went on to say that during the November/December 1983 period he participated in a meeting with a number of other individuals that NORTH also attended. He was not aware at the time who NORTH was or for whom he worked. He said this meeting occurred after he left BSI and the meeting had nothing to do with the "Contra supply issue". He also said that while at YELLOW FRUIT (U) he had no contact with NSC personnel. However, subsequent to his assignment at BSI he had dealings with two NSC staffers. He identified them as John GRIMES and Tim DEGRAFFENRED. His contact with them was not related to the "Contra supply issue". He did not have first hand knowledge of any contact by BSI or YELLOW FRUIT (U) with the NSC or NORTH.---------------------------------LAST ENTRY--------------------------------

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by K. Johnson, National Security Council

5438

TYPED AGENT'S NAME AND SEQUENCE NUMBER: SA JOHN S. CANTRELL, 0186

ORGANIZATION: HQUSACIDC, Task Force Catalyst Maker

SIGNATURE:

DATE: 7 Apr 87

EXHIBIT:

HQ FORM 94
1 FEB 77

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PREVIOUS EDITIONS OF THIS FORM WILL BE USED UNTIL EXHAUSTED.

U.S. GOVERNMENT PRINTING OFFICE 1984-432-445

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DEPARTMENT OF THE ARMY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, DC [illegible]

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10 OCT 1986

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Marsh
Ex. 8
7/23/87 m

MEMORANDUM FOR THE SECRETARY OF THE ARMY

SUBJECT: Additional Support of Project Crocus (U)

(U) The action memorandum to you of September 8, 1986, SAB, concerns additional support for this project beyond that already provided in May 1986. The Chief, TMO provided me with the action memorandum and supporting documentation because the original request was not processed through the prescribed [redacted] and did not receive the legal reviews required by the DASP(U). The action memorandum on additional support also omits TMO, OTJAG, and my office.

(S) I have not been provided with sufficient information on this project to permit a complete legal review or concurrence, but the available information (or lack thereof) does raise serious legal and policy concerns that should be resolved prior to your action on this request. Specifically:

a. (S) Since the ultimate purpose of this request and destination for the materiel have not been disclosed, I cannot address statutory or other restrictions that might apply, or the approval authority required under DOD Directive 5210.36. Review by the DUSD(P) is required if this request involves substantial risk of embarrassment to the United States or DOD, or, if in your judgment, it involves questions of policy or propriety.

b. (S) The request, if supported, will result in an inventory zero balance on three items and impact on the Army's air defense capability. Both DOD Directive 5210.36 and the DASP set forth a policy of providing support to non-DOD agencies if it will not interfere with, or impede, the performance of the missions and functions assigned to DOD. Thus, the impact of this requested support on the Army should be carefully evaluated.

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by K. Johnson National Security Council

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c. (S) It is not clear from the supporting memoranda whether Roam Stock still contemplates transferring radar systems that were previously identified as Iranian assets pending settlement of claims by the U.S. - Iranian Claims Tribunal. Any such proposed transfer should be reviewed by OSD. This would be treated as a separate request for end items, rather than repair parts.

(U) I am concerned that it was deemed necessary to handle both the original and additional requests through other than the established [redacted] System and to exclude both OTJAG and my office from the review process. Due to his attendance at the JAG Conference, MG Overholt has not yet had an opportunity to review this matter, but I am confident that he would concur in my view that sensitive programs should be given proper legal review before the Army leadership is committed to their support.

Susan J Crawford

Susan J. Crawford
General Counsel

18APR86

Marsh
Ex: 9
7/23/87 mas

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DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS
WASHINGTON, DC 20310

REPLY TO
ATTENTION OF

DAMO-ZA

18 APR 1986

MEMORANDUM FOR DIRECTOR, JOINT STAFF

SUBJECT: [redacted] System (U)

1. (S) The [redacted] System provides a single channel for requests for support from the Central Intelligence Agency to the Department of Defense. The system protects extremely sensitive information from both inadvertent and deliberate disclosure, allows for covert support to Agency operations worldwide, and insures adequate Service review of the requests.

2. (S) Recently, a number of requests involving transfer of high technology weapons, large quantities of limited, sophisticated missiles, and/or spares for low density weapons have bypassed the [redacted] System. These requests have been made by members of the Office of the Secretary of Defense directly to Service officials. [redacted] has either not participated or has done so after the fact.

3. (S) Requests which bypass the [redacted] System receive less Service and no Joint Staff scrutiny, yet may impact on the Service's warfighting capabilities. The Secretary of Defense should be made aware that using ad hoc channels to support the CIA may degrade security overall and impair national security.

CARL E. VUONO
Lieutenant General, GS
Deputy Chief of Staff for
Operations and Plans

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under provisions of E.O. 12356
by K. Johnson, National Security Council

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2 APR 87 [redacted]

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SWORN STATEMENT

For use of this form, see AR 190-45; the proponent agency is Office of The Deputy Chief of Staff for Personnel.

LOCATION Arlington Hall Station, VA	DATE 2 Apr 87	TIME	FILE NUMBER
LAST NAME, FIRST NAME, MIDDLE NAME Golden, William Thomas	SOCIAL SECURITY NUMBER [redacted]		GRADE STATUS GM14/Civilian
ORGANIZATION OR ADDRESS [redacted]			

I, William T. GOLDEN, WANT TO MAKE THE FOLLOWING STATEMENT UNDER OATH:

Q. We understand that you've been contacted by CBS news regarding Swiss bank accounts that you are a signatory to. Is this true and can you explain their inquiry to you?

A. I was contacted about a week ago by a Mr. ROSENBERG of CBS news who wanted to know if there were any connections between Business Security International (BSI) and the National Security Counsel. I refused to comment on that and referred him to the Army Public Affairs Office. ROSENBERG contacted me again during the morning of 1 April and during that conversation advised me that he had confirmed through a source in Europe that I was a signatory to a Swiss bank account. He also claimed that Oliver NORTH, Richard SECORD, Robert OWEN and Joel PATTERSON were signatories to the same account. I again refused to comment and referred him to the Army Public Affairs Office.

Q. Are you a signatory to a Swiss bank account?

A. I don't know.

Q. Were Swiss bank accounts established when you worked at BSI?

A. Not to my knowledge.

Q. Were you involved in establishing any bank accounts at BSI?

Marsh
Ex. #10
7/23/87 mas

[redacted] described in a concept paper and was a plan to supply the Nicaraguan Contras if their funding was stopped. There were various aspects of the plan, of which I only recall two. The first had to do with supplying the Contras through [redacted]. The plan was to have [redacted] come in to the US Government through the Foreign Military Sales and/or the Foreign Military Assistance programs with requests for support, material, etc. It was to be pre-arranged that [redacted] would inflate their requests over and above what they really wanted, with the understanding that [redacted] would transfer those excess supplies, materials, etc. to the Contras [redacted]

EXHIBIT	INITIALS OF PERSON MAKING STATEMENT WTG	PAGE 1 OF 3 PAGES

ADDITIONAL PAGES MUST CONTAIN THE HEADING "STATEMENT OF ___ TAKEN AT ___ DATED ___ CONTINUED." BOTTOM OF EACH ADDITIONAL PAGE MUST BEAR THE INITIALS OF THE PERSON MAKING THE STATEMENT AND INITIALED AS "PAGE ___ OF ___ PAGES." WHEN ADDITIONAL PAGES ARE UTILIZED, THE BACK OF PAGE 1 WILL BE LINED OUT, AND THE STATEMENT WILL BE CONCLUDED ON THE REVERSE SIDE OF ANOTHER COPY OF THIS FORM.

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DA FORM 1 JUL 72 2823 SUPERSEDES DA FORM [illegible] BE USED.

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UNCLASSIFIED [redacted]

"Statement of William T. GOLDEN taken at Arlington Hall Station, VA, dated 2 Apr 87, continued."

[redacted]

EXHIBIT ____ INITIALS OF PERSON MAKING STATEMENT ____ PAGE 2 OF 3 PAGES

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STATEMENT (Continued)

Q. Given all the attention regarding this subject in the media. Why wasn't this subject surfaced before now?

A. Because I didn't really connect it all until CBS inquired about the Swiss bank accounts and further because the focus in all of the actions related to BSI has or was always on DUNCAN.

Q. Is there anything that you wish to add to or delete from this statement?

A. DUNCAN made the policy of establishing Separate bank accounts. End of STATEMENT WTG

AFFIDAVIT

I, William T. COLDEN HAVE READ OR HAVE HAD READ TO ME THIS STATEMENT WHICH BEGINS ON PAGE 1 AND ENDS ON PAGE 3. I FULLY UNDERSTAND THE CONTENTS OF THE ENTIRE STATEMENT MADE BY ME. THE STATEMENT IS TRUE. I HAVE INITIALED ALL CORRECTIONS AND HAVE INITIALED THE BOTTOM OF EACH PAGE CONTAINING THE STATEMENT. I HAVE MADE THIS STATEMENT FREELY WITHOUT HOPE OF BENEFIT OR REWARD, WITHOUT THREAT OF PUNISHMENT, AND WITHOUT COERCION, UNLAWFUL INFLUENCE, OR UNLAWFUL INDUCEMENT.

(Signature of Person Making Statement)

WITNESSES:

SA Craig C. MALMFELDT
HQ, USACIDC, Task Force Catalyst Maker
ORGANIZATION OR ADDRESS

ORGANIZATION OR ADDRESS

Subscribed and sworn to before me, a person authorized by law to administer oaths, this 2 day of April, 19 87 at Arlington Hall Station, VA

Michael J Keith
(Signature of Person Administering Oath)

SA Michael I. Keith, 2193
(Typed Name of Person Administering Oath)

Art 136 (b) (4) UCMJ
(Authority To Administer Oaths)

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INITIALS OF PERSON MAKING STATEMENT WTG

PAGE 3 OF 3 PAGES

RPTS BOYUM

DCMN DONOCK

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DEPOSITION OF ROBERT H. MASON

COPY NO. 1 OF 2 COPIES

Monday, February 2, 1987

House of Representatives,
Select Committee to Investigate
Covert Arms Transactions with
Iran,
Washington, D.C.

The select committee met, pursuant to call, at 11:05 a.m., at Headquarters, Southern Air Transport, Venadades Building, 6th Floor, Miami International Airport, Miami, Florida. Charles Tiefer, Special Deputy Chief Counsel to the Select Committee, presiding.

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Partially Declassified/Released on Jan 25 1988
under provisions of E.O. 12356
by D. Sirko, National Security Council

UNCLASSIFIED

MR. TIEFER: My name is Charles Tiefer, I am Special Deputy Chief Counsel to the House Select Committee to Investigate Covert Arms Transactions with Iran, pursuant to House Resolution 12, 100th Congress, First Session.

With me is George Van Cleve, if you would introduce yourself.

MR. VAN CLEVE: I am Deputy Republican Counsel of the Select Committee to Investigate Covert Arms Transactions with Iran.

MR. TIEFER: As an observation from the parallel Senate Committee, we have Terry Smiljanich.

MR. SMILJANICH: Right, Associate Counsel with the Senate Select Committee investigating these matters.

MR. TIEFER: Mr. Smiljanich is here with the consent of Southern Air Transport, which is seeking to have as much as possible coordinated and simultaneous House and Senate inquiries.

Mr. Mason, will you take the oath now?

[Witness sworn.]

BY MR. TIEFER:

Q Will you state your name and address for the record?

A My name is Robert N. Mason. My address is [redacted] [redacted] Miami, Florida, 33157.

MR. TIEFER: We will go off the record now.

[Discussion off the record.]

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under provisions of E.O. 12356
by D. Sirko, National Security Council

. MR. TIEFER: After a tour through Southern Air Transport facilities, we are resuming the deposition of Mr. Mason, and if the witness' counsel could also identify himself for the record?

. MR. KIRSTEIN: David Kirstein, from the law firm of Beckman & Kirstein, representing Southern Air Transport.

. MR. TIEFER: You have received for the witness a copy of the Rules of the Committee?

. MR. KIRSTEIN: Yes.

. BY MR. TIEFER:

. Q Mr. Mason, if you would start just by telling us your background, what you did in a very general way before coming to the company?

. A Okay. I joined the company in August of 1985. I came--I joined this as Controller, and was promoted to Senior Vice President in March of 1986. I came to the company from Evergreen International Airlines in Oregon. I had been with them for approximately seven and a half years.

. I had joined them in Arizona when I lived in Arizona, and when the headquarters were moved to Oregon, I moved up there. At the time I left Evergreen, I was Vice President of Finance for that organization.

. - I had worked with Bill Langton up there, and it was through that connection that I was offered the job at Southern. Prior to that time, I had my own accounting practice in Tucson for a period of about eight years.

I don't know whether you want me to go back further than that.

Q State your college education.

A Okay. I received an undergraduate degree from Cornell University in 1957, major was agricultural economics. I received a BMA degree from the University of Arizona in, I think it was 1971, with no particular major. It was kind of a general degree that was granted down there.

Q And after graduating from Cornell, what was your--

A After graduating from Cornell, I spent a little bit of time in the Navy. I ran a dairy farm for a number of years. I worked in a family business which was a kind of a general variety store, in upstate New York.

I worked for a very short period of time selling--

MR. TIEFER: Off the record.

[Discussion off the record.]

BY MR. TIEFER:

Q If you could pick up from the dairy farm and take it up to the eight years in accounting in Tucson.

A Okay.

I worked for a couple of years in a family business which was a variety store, I sold insurance for a short period of time, and went to work for a farm co-op as a retail store manager.

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At that point in time, I spent two years doing that; at that point in time, I moved to Arizona and went to school, started my business, worked for probably six months for the City of Tucson, documenting their accounting system and writing procedures for them.

Q How did you come to go to work for Evergreen?

A Answered an ad in the newspaper.

[redacted]

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[redacted]

. Q Not specifically in connection with that question, but just in connection with all questions, I do this at the beginning of a deposition, you recall you were sworn at the beginning of this deposition before we adjourned?

. A Correct.

. Q Do you understand the significance of the oath that you have taken?

. A I do.

. Q I show you now a document numbered SAT-001798. From now on, when I refer to documents, I will simply refer to the digits rather than the SAT numbers at the beginning, but all documents referred to by number will be prefaced with SAT.

. A Okay.

. Q I ask you if you recognize it?

. A Yes, I do.

. Q What is it?

. A This is the organizational designation of the

Executive Department at Evergreen, showing or going through the--

MR. KIRSTEIN: You mean Southern Air.

THE WITNESS: Sorry, Southern Air. You got me back on the Evergreen track here--showing the senior management of the company, from Mr. Bastian, the Chairman, through Mr. Langton, the President, down to the three senior VP positions.

I might say that this is outmoded at the present time.

BY MR. TIEFER:

Q What would have to be changed with respect to it?

A There is a fourth Senior Vice President who has come on board within the last month, who is Senior Vice President for Sales and Services

Q What is his name?

A Eric Korth. K-o-r-t-h.

Q Let's work our way down from the top and actually, the Board of Directors is not shown on this chart, but let's start with the Board of Directors. Who is on the Board of Directors for Southern Air Transport?

A On the Board of Directors for Southern Air Transport are James Bastian, William Langton, Vernon Eason, Hugh Grundy, and Stan Williams.

Q Do you know how long Mr. Williams has been on the

Board of Directors?

A I really don't. My assumption would be, if I can use assumptions on this, that he has been on the Board of Directors since 1979, because that is the point in time at which Mr. Bastian bought the company from Mr. Williams.

Q How long has Mr. Eason been on the Board?

A I really have no good feeling for that one. Mr. Eason was a former insurance broker for the company. I am not sure when he retired from business. I think when he--my assumption would be when he stopped being active in the insurance field as the active broker for the company, he was appointed to the Board, but I don't know when that was.

MR. KIRSTEIN: Bob has only been here since August of 1985 himself.

THE WITNESS: Yes, a year or year and a half. But he was on the Board at the time I came, as was Mr. Grundy, and I cannot tell you how long he was on the Board.

BY MR. TIEFER:

Q You have no idea how long Mr. Grundy was on the Board?

A No.

Q Do you talk with the members of the Board who are not in-house, the three members of the Board who are not corporate officers?

A I talk very often with Mr. Eason, who still maintains some relationships with the insurance company, Alexander and Alexander, who is our prime carrier, and I do run things by him, or I do run problems that I am having by him, so I do have an ongoing dialogue with him.

Mr. Williams, I may talk to a couple of times a year.

Q And Mr. Grundy?

A Mr. Grundy, I have had no contact with other than having met him at last year's Board meeting.

Q Besides talking to these people, do you have written communications with them? By these people, I mean the three outside directors on the Board.

A The only person that I have had written communication with in the last year would be Mr. Williams, and that had to do with some payments that we are still making to him out of the purchase of the company, and I think that was on one occasion.

Q Are you familiar with the arrangements that were made for the purchase of the company?

A I am really not. I don't really feel qualified to talk about that. It is a question that probably would be best directed to Mr. Bastian.

Q This will arise several times, while there may be somebody else in the company who is better qualified, if I ask you if you know anything about something, you can answer

I don't know, or you can say what you know.

A We pay X number of dollars each month to Mr. Williams out of that purchase contract.

Q By check?

A By check.

Q I may frequently refer--I simply need a label that we will understand--if I were to refer to a matter of transporting Iran arms and to a matter of assisting a group in Central America that was resupplying the contras, and if I used the shorthand, the Iran-contra~~s~~ matter, would that have any meaning to you, so if I ask a question such as, have you discussed the Iran-contra~~s~~ matter with so and so, would you understand what I was asking?

A I would understand what you were asking.

Q So, for the record, and I am not asking you to define the problem, which is a difficult problem to define, when I ask that question, what does it signify to you?

A What it signifies to me is that there was or apparently was a movement of arms from the U.S. to Iran via Israel. There was a movement of arms from [redacted] to Central America.

And there was a group that was resupplying the contras in Central America [redacted] if you will. I guess the question, or the statement I need to make with you, and this may be--ought to be made off the record, then

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you can decide after I have made it whether you want it on the record or not.

MR. TIEFER: Off the record.

[Discussion off the record.]

MR. TIEFER: Back on the record.

BY MR. TIEFER:

Q If at any time one of my questions is difficult for you to understand, Mr. Mason, by all means ask me, if possible tell me what is difficult to understand about it or just say generally, I don't understand.

With the explanation that you have just given of what the Iran-contra matter means to you, have you discussed the Iran-contra matter with any of the three outside directors on the Board of Directors?

A Yes. I have.

Q Which ones?

A With Mr. Eason.

Q When?

A On several occasions, the most recent one was last Friday of last week.

Q And can you recite the substance of the various conversations you have had with Mr. Eason about this matter?

A The substance basically has been that Southern was involved in these--yes, it was recognized that we were involved in these. I don't think we have from day one, have

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said we were not involved.

The discussions have probably been more around the treatment that we have received from the press and from various Members of Congress in doing a job that we felt we were asked to do by the government, and the fact that we felt we were getting short shrift in the press and really being tarred and feathered for stepping forward when somebody needed to step forward and do a job.

Q What did Mr. Eason say to you?

A Basically, it was a back-and-forth dialogue. I think we both have the same feeling on it. He relayed a converse call that he received from a reporter by virtue of being on the Board of Directors, and I don't recall the paper he was from. I think he was from out of Detroit within the last week, and in which he relayed much the same type of conversation to the report, you know, here is a company, it is a fine company, this is a small portion of business they have engaged in in the last year, and I am not going to say or do anything that you can construe in any manner to use against them.

Q Can you tell from your conversations with Mr. Eason or from any other source whether he previously knew, prior to the press inquiries, of whatever Southern Air Transport had done in connection with the Iran-contra matter?

A He knew, again, because I have an ongoing dialogue with him, that we were having flights into Central America, because I needed to have an ongoing dialogue with my insurance carrier about those.

. Central America was included within the last year as an area that was excluded from normal insurance coverage, okay? I have to buy war risk if I go down there. Therefore, I need to go to the insurance company before I make a trip, and be sure they are willing to cover my aircraft.

. I am not going to fly down there without insurance. We had some problems in getting timely responses out of Lloyd, that I had discussed with Mr. Eason over the last year. So he was aware we were doing down there.

. As far as the Iran connection goes, I was not aware of that. I can tell you, you know, I knew that we had the trips on the 707 from Kelly to Tel Aviv, and I knew that there was activity beyond that point.

. I can tell you what I thought we were doing, but I never asked the question of anybody, because I didn't figure it was proper. I thought we were flying trips into [redacted] to help those people.

. It wasn't until this whole thing broke that I understood what was happening, and I think you will find that with the people within the company. I think Bill and Jim--by Bill and Jim I mean Mr. Bastian and Mr. Langton and perhaps Paul Gilchrist had the whole picture, but beyond that, I think the rest of us did not know, nor should we have known.

. Q Could you tell when you had your conversations with Mr. Eason whether other people, Jim or the chairman of the board or anyone else had been briefing him on the Central American flights or Iran flights or anything like that?

. A I really can't answer that question. If I took the time and thought back over it, maybe I could give it a good answer, but nothing that is--

. Q When you talked to Mr. Eason or other outside directors, do you make any notes of your conversations or other record?

. A Generally not.

. Q Did you, in these specific instances when you talked with Mr. Eason?

. A If I did, it would be just a quick note on how to perhaps handle a particular insurance problem, and once done, I would have no reason to retain the notes if this is the question you are leading up to, you know, there might be one or two of those around, but it would--you know, there is no volume of things in this particular area.

. - Q Have you talked with either of the other two outside directors besides Mr. Eason about the Iran-contra matter?

. A As I have said, I have not talked with Mr. Grundy at all. I did have occasion to talk with Mr. Williams just before the end of the year, and in passing, we mentioned it, but again, it was along the same lines as we talked with, with Mr. Williams.

Again, not being happy with the way Southern is being treated.

Q Did you have any sense from this conversation whether he had previously known of this matter or had been briefed on it?

A I had no sense out of that conversation that he had known or been briefed on it.

Q By the way, for the three outside directors, physically where are they, just what cities?

A One is in Miami, who is Mr. Eason; Mr. Williams lives in Daytona Beach; and I am not sure where Mr. Grundy lives. It is not in Miami. At least I don't believe it is in Miami.

Q Is it in the United States?

A It is in the United States. You know, it could be the Keys, it could be northern Florida.

Q Do you think it is somewhere in Florida?

A I don't even know that--I--

Q Fine.

Continuing down the chart, or actually first coming on to the chart that you previously recognized, you have a listing for the Chairman of the Board and the Chief Executive Officer. Who is that?

. A That is James Bastian.

. Q Do you know how long Mr. Bastian has been Chairman of the Board?

. A Mr. Bastian bought the company in 1979. My assumption is that he has been Chairman of the Board from the day he bought the company. It is a wholly owned company. He owns 100 percent of the stock.

. Q Have you talked with Mr. Bastian about the Iran-contra~~s~~ matter?

. A We have talked about it, yes.

. Q How many times?

. A It has been an ongoing subject of discussion--you know, when you say the Iran-contra matter--

. Q Yes?

. A --let me say that in my mind, that dates from early October, when the C-123 was shot down in Nicaragua.

. Q Well, prior to then, had you talked with Mr. Bastian about, say, the operations in Central America?

. A We had had some conversations on what was happening, but more with--more involving our participation as a maintenance base.

. Q What else?

. A What the nature of the payments were, were we getting paid on a timely basis, and this type of thing. Up to that--up to early October, it was really nothing in our mind, in my mind it was nothing more than the type of job we would do for a third party.

. We were performing a third party maintenance service. There was ''no problem,'' as you say.

. Q Well, with respect to the Central American side of it, how often would you say before October of 1986 you spoke to Mr. Bastian?

. A I am sure that one way or another, we probably touched on it at least weekly.

. Q Now, I am not going to go in full length at this point into your own knowledge, but it may help in this particular line of questioning.

. Some aspects of flights to Central America preceded your coming into the company, no?

. A Yes. I understand.

. Q There were flights in January--

. A I understand there were flights in January and February of 1985.

. Q How soon after you came into the company did you become aware of any such activity in terms of supplying arms or shipping arms in Central America?

. A I would have to say it would be early 1986, and I am not--you know, even at that point in time, I am not sure that

I could have told you it was arms that we were shipping. I knew it was hazardous material.

You are telling me it is arms, I am not--you know, I wasn't on board the airplane and didn't see the manifest. You didn't--maybe you have seen the manifest; I am not sure what it said. We are making the assumption that both of us probably think is correct, but neither of us is really sure.

Q We will refer to it as hazardous material.

A Okay.

Q How soon after your first becoming aware of the matter of shipping hazardous material would you have been discussing it with Mr. Bastian?

A If you are referring to the flights from [redacted] to Central America, I am not sure that Jim and I ever discussed those.

Q Then what was the first subject concerning flights to Central America that you discussed with Mr. Bastian?

A Probably was something out of having the C-123, and one of the Caribous, were on our ramp for maintenance prior to the time they went to Central America, and it could have been something out of that particular activity.

Q By that, you mean performing maintenance activities on the C-123s and the Caribous?

A Right.

Q Do you have any recollection of what the conversation would have been between you and Mr. Bastian on that date?

. A Specifically, no.

. Q What other--

. A You know, if the question you are really asking me is did we talk about the fact that the Caribou was going to go down there, or the C-123 was going to go down there and run arms to the contras--no, we never had that type of conversation.

. We did in that same time frame run some flights for NHAO.

. Q By which you mean the Nicaragua Humanitarian Assistance Office?

. A Yes.

. Q Okay.

. A Did we talk about what may have been carried on those flights? No.

. Q Do you know who you talk about?

. A It would have been specifics about what we were doing in the way of third-party maintenance, and what kind of costs we were getting involved in in doing that type of thing.

. You know, it would have been related to insurance coverage for our Herc aircraft that was flying the NHAO flights down there.

. Q Would you have referred in these conversations--or have we referred to who your customer was on these matters?

. A I don't think we ever did. I don't know if it was ever specifically stated who the customer was, other than the implication was that it was at the direction or at the request of the government that we were undertaking these activities.

. Q Including the maintenance of the C-123s and the Caribous?

. A Yes. You know, this is our area of expertise. We maintain aircraft, we operate aircraft, we are in Miami, which as a proximity to the area that they were--wanted to operated in; we are very efficient at it, so why not come to Southern and ask them to do that?

. Q What is there in the nature of your conversations with Mr. Bastian that would have carried the implication that it was for the government you were going this, rather than, say, for some private people?

. A I think that--I am jumping off from Mr. Bastian--I think the implication that it was for the government probably came more from Mr. Langton than from Mr. Bastian, at least back in the early stages.

. The other thing I could draw conclusions from was that in the early stages, EAST, Inc. and Dick Gadd were involved, and my predecessor when I came in, told me a few things that he suspected about EAST, Inc. and their governmental connections.

Q Let's take all that up for a complete explanation. Who was your predecessor?

A Tom Kearney.

Q How long was he with the company, to your knowledge?

A He was with the company, I think about two or two and a half years.

Q Do you know where he is now?

A Yes. He is in Brooksville, Florida.

Q Do you know what he does now?

A He is retired.

Q What do you recall him telling you about EAST, Inc. and Gadd?

A Nothing particularly about Gadd other than Gadd is EAST, Inc. [redacted]

Q Did he tell you anything more about EAST, Inc. and Gadd than that?

A No, other than we had some contracts with them, that we did do work for them, and--

Q And to go back to where we were, in your conversations with Mr. Bastian, which there was the implication that maintenance on the C-123s and Caribous was being done in some sense for the government--

A Let's not say that.

Q Correct me.

A Let's not say that that came from Mr. Bastian. Let me say that that was in my own mind, more in conversations from Mr. Langton.

Q In your own mind. I will come back to Mr. Bastian, not especially to come back to him, but to complete things in a fashion.

MR. KIRSTEIN: Can we go off the record?

MR. TIEFER: Off the record--I am willing to go off the record, but I will tell the reporter to go off the record.

[Discussion off the record.]

BY MR. TIEFER:

Q Let's proceed to Mr. Langton. Have you had conversations with Mr. Langton about the Iran and contras matters?

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A Yes.

Q Can you remember when they began? Would it have been soon after you came into the company or not for a while?

A I need to go back to the time I first got involved in this, in order to answer that, okay? I need to go back because this all ties into it. I need to go back to November of 1985, at which time Mr. Langton asked me to go to Panama and set up a corporation.

We may be getting way ahead of our story at this particular point in time. It may not be where you want to go.

At that particular point in time, I knew nothing about contras, I knew nothing about Iran, I knew nothing about ''the problem.'' But that was my first conversation with Mr. Langton that had a bearing on this.

MR. TIEFER: This is a fortuitous break, lunch is here.

[Discussion off the record.]

[Whereupon, at 1:10 p.m., the select committee recessed, to reconvene at 1:40 p.m., the same day.]

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1:40 p.m.

AFTERNOON SESSION

. BY MR. TIEFER:

. Q Resuming the deposition, Mr. Mason, perhaps I will simply ask the shorter question with respect to the Iran-contra~~s~~ matters, did you have a number of conversations with Mr. Langton?

. A Yes.

. Q Let's continue down the chart. You have a listing for a VP of Government Affairs, who is that?

. A That is Mr. Bastian's wife.

. Q And do you have an idea how long she has been with the company?

. A I don't know.

. Q What does she do in that post?

. A She is responsible for legal matters having to do with the government.

. Q She is an attorney?

. A She is an attorney. She is a former labor attorney.

. MR. SMILJANICH: I am sorry?

. THE WITNESS: Former labor attorney.

. BY MR. TIEFER:

. Q Have you had discussions with her about the Iran-contra~~s~~ matter?

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A No.

Q There is a box that is labeled vacant attorney, can you describe that position?

MR. SMILJANICH: He is here.

THE WITNESS: I will attempt it. We have in our organizational structure made provisions for an in-house attorney. We have not as yet hired anybody for that, nor has anybody filled that position.

BY MR. TIEFER:

Q You have a position of Executive Secretary. Who is that?

A That is Daphne Bentley.

Q Do you have an idea how long Ms. Bentley has been with the company?

A She has been around about 20 years.

Q And do you know what she does in that position?

A She is the secretary to Mr. Langton and Mr. Bastian. She would do the duties normally of a secretary, typing, filing, answering the phone.

Q Would she arrange appointments for them?

A She doesn't work directly for me.

Q If you wanted to make an appointment with one of them, might you get in touch with her?

A If I wanted to make an appointment with one of them, I would probably just walk in and go into their office. The company is not that big. If they were busy, I might say to Daphne, when they are free, let me know.

. Q Have you ever discussed with Ms. Bentley any Iran-contra matters?

. A No.

. Q Proceeding to the level of the Senior Vice Presidents, you have a Senior Vice President for Operations, who is he?

. A David Mulligan.

. Q Do you have an idea how long he has been with the company?

. A David has been with the company three and a half years.

. Q Do you know where he worked before then?

. A Air Florida.

. Q Generally, what does he do?

. A He has responsibility for the operations and maintenance departments, which would include flight operations, flight control, crews, and all the various maintenance functions, as well as the recordkeeping in the maintenance area.

. Q Have you spoken with him about the Iran-contra matters?

. A Yes.

. Q You have a Senior Vice President for Marketing and

Administration.

. A Yes.

. Q Okay.

. A Charles Carson.

. Q And do you know how long he has been with the company?

. A He has been with the company about two and a half years.

. Q Do you know where he was previously?

. A He was with Emory Air Freight.

. Q What are his responsibilities?

. A He has recently moved to that position. Before that, he had charge of marketing and sales. As I told you previously, that sales slot was broken out, and another Senior Vice President was added.

. At the present time, he is responsible for administration, which is contract administration, building administration, leases, that type of thing, data processing, personnel, and also marketing, which has to do with costing and strategic planning, that type of thing.

. Q Have you had discussions with him about the Iran-contra matter?

. - A Yes.

. Q Have you had many such conversations?

. A It has particularly--particularly since October, it has been an ongoing topic of conversation on a daily basis within the company.

. Q Prior to October, did you have conversations with him?

. A Yes. But they were very limited. In the overall scheme of things, Charlie was probably the one person that really had no idea of what was going on, other than a very general way.

. Q Now, this chart does not show it, but you have said there is a--besides yourself and two previous ones we have discussed, a fourth Senior Vice President.

. A Yes.

. Q Who is he?

. A Eric Korth, Senior Vice President of Sales and Services.

. Q And how long has he been with the company?

. A He has been with the company less than a month.

. Q And what is his responsibility?

. A He is responsible--his responsibilities include the sales function, selling of contract, and ad hoc charters, and service, which in Southern Air Transport includes the ground services that we do for some of our customers, i.e., loading aircraft, unloading aircraft, that type of thing, as well as the load masters that we carry on the L-100 aircraft.

Q Would you make any other changes in this chart to bring it up to date?

A No.

MR. TIEFER: If the reporter would mark this as Exhibit 1 to the deposition.

[The following document was marked as Exhibit RHM-1 for identification:]

xxxxxxxxxx INSERT 1A-1 xxxxxxxxx

BY MR. TIEFER:

Q I show you Document 1809 and ask you if you can identify it?

A This is the organizational chart for the Finance Department.

Q This is your Department?

A Yes.

Q Let's start with your responsibilities. What are your responsibilities?

A Primary responsibilities lie in the area of bank relationships, insurance relationships and coverages for the company, as well as overseeing the accounting functions through a controller, the payroll function through a payroll manager, and the budgeting and reporting function through a manager of reports, and--I don't know what the exact title is--reports and analysis.

Also, I have recently hired an internal auditor to work within this Department.

Q That covers most of the chart entries. There was no previous internal auditor?

A No. That is a new position.

Q Was there an outside auditor?

A We have an outside accounting firm that comes in once a year to certify our audit.

Q Who is that?

. A Arthur Anderson.

. Q Do you know how long they have been doing this?

. A I really don't know how long they have been doing it. It has been four or five years, anyway.

. Q Can you describe this report that they certify, since you are not a publicly-held company?

. A Well, the fact that we are not a publicly-held company only means that we don't have to file a 10-K or what have you, with the SEC. Our banks still require us to have a certified audit done each year. It is part of our lending relationships.

. So, they need to come in and do the same type of audit here that they would do with a publicly-held company. They need to--

. Q Does the annual report have a title, or annual report have a title? Does it produce a document with a name?

. A It doesn't produce--it produces what is called a brown back, if you will, because it is in a brown binder, which is a statement of our financial position, balance sheet, profit and loss statement, statement of changes in financial position, as well as notes to these particular statements, which comes under a cover letter from them, which hopefully if everything is right says that we have kept our books properly, and there is no qualifications on their audit, which has been the case right along.

Q Do you keep back copies of the brown binder?

A Yes.

Q Do you know how far back you keep them?

A I know I go back to at least 1982.

Q Does Arthur Anderson have a single person who typically functions as your auditor, or is it a mixture of people?

A They send a team in. There is a partner who is in charge of the audit, a partner of the firm, local firm.

Q Has the same partner been involved several years in a row?

A Yes.

Q Who is that?

A His name is Peppy Garcia. I can't tell you his first--real first name.

Q What office or branch of Arthur Anderson?

A There is only one branch in Miami. Under him, there is a manager, and then under the manager, there is generally a couple of seniors and then a couple of junior auditors.

Q Do you talk to these people on an ongoing basis throughout the year or only when the team comes in?

A I may have a couple of conversations with them throughout the year. They come in and they do some preliminary work in November, which they have done and of course, when they are here, I have conversations with them.

I have ongoing dialogue with them when they come in to do the actual audit, which will be in about two weeks, and then out of that, I have an ongoing dialogue with them until the final reports are published.

On the other side, there are the tax people at Arthur Anderson, who are also part--comes out of the audit, and these people I am more apt to have ongoing dialogue with.

Q Good. Let's back up and do that. Who is responsible for preparing the tax files?

A Tax returns are prepared by Arthur Anderson, they are not done in-house. Income tax returns.

DCMN SPRADLING

. Q Who at Arthur Andersen handles your income tax returns, who is the most senior?

. A Again there is a partner in charge of it. I have never met him, the person that I deal with who is most senior is a fellow by the name of Paul Prescott.

. Q And is he also in the Miami office?

. A Yes.

. Q What other type of tax returns do you file besides income tax returns?

. A Personal property tax returns would be the big one; sales tax returns for the State of Florida; excise tax returns; payroll tax returns--there are probably some others I cannot think of right off the top.

. Q Do you yourself review the tax returns before they are filed with the Federal government?

. A Yes.

. Q And do you keep copies of them?

. A Yes.

. Q Do you know how far back copies are kept?

. A I go back at least to 1982 on those.

. Q Coming back through some of the slots that you mentioned earlier, you have a manager of reports and analysis.

. A Yes.

. Q Who you mentioned does budgets.

. A He does budgets, he does the monthly management reports.

. Q Can you describe what is in the monthly management reports?

. A It is a, basically a profit and loss statement that is broken down by type of business and by type of aircraft.

. Q And the budget is an annual budget?

. A It is an annual budget.

. Q And what is contained in the budget?

. A It is a revenue projection, projection of the statistical base that we think is going to take place in the coming year, number of flight hours, number of block hours, number of miles, how many gallons of fuel we think we are going to use, number of landings, on and on; as well as what we think we are going to incur in the way of costs in servicing that business.

. Q Who is your subordinate in charge of that currently?

. A His name is Brian Daggett.

. Q How long has he been with the company?

. A He has been with the company since October of 1985.

. Q In order to do either the annual budget or the monthly statements, does he have to become familiar or not with particular projects which occur on an ad hoc basis?

. A I would like to have you clarify that.

. Q Certainly. Suppose you had a particular charter or other activities which may generate revenue but are not smooth on the chart, does he learn about these things or does he not learn about these things?

. A He would have to have a fairly good idea of what our activities are, i.e., was this a contract flight or was this an ad hoc flight. He doesn't really need to know the nature of it as long as he knows what the classification is.

. Q Does he have to find out whether it is going--it is of a type of business that will be recurring or not?

. A Not necessarily. Anything that would recur that we have a contract for would be reported as a contract; I mean we have repetitive type of activity that is reported on an ad hoc basis.

. Q How does he receive information from the departments in the company?

. A He attends the morning operations meeting which we have every morning at 9 which reviews the prior day's activity; he receives copies of certain of the billings that we do for activity.

. Q That might make it a useful point to ask about meetings. What regular meetings of corporate management take place?

. A The only one that involves the entire company would be the morning operations meeting which takes place every morning at 9 o'clock and it is a review of what happened the prior day or prior evening.

. Q And--

. A Plane by plane, aircraft by aircraft, what delays we encountered, what other problems we may have encountered, any particular items or special needs that are coming up in the next day or the next week even that people need to be aware of.

. Q And about how many managers attend this meeting?

. A Depending upon how many are in town, it could be anywhere from 10 to 16 or 17.

. Q Is any paperwork prepared in advance or after these meetings?

. A There is a schedule that is put out on a daily basis which lists each aircraft and what its routing is and any notations of delays for that aircraft.

. Q And who prepares that?

. A It is prepared by flight operations department, dispatchers.

. Q Other than that, there are no recurring meetings of corporate management?

. A There are departmental meetings but there are not--one of the nice things about this company is there is not a succession of meetings that eat into your time, okay?

You know, we have a monthly finance meeting where we look at what happened the prior month and go over the financials which will involve a total part of the company. There are various departmental meetings that are held and then there will be special meetings if we need to get together for any particular reason.

. Q Do you remember any such special meetings concerning the Iran-contra matter?

. A Not until after it became a problem.

. Q By which you mean after, say, it came into the press?

. A After it came into the press.

. Q Do you remember at any of the daily meetings subjects related to the Iran-contra matter coming up?

. A Not--

. Q If you want to explain your answer fully, go right ahead.

. A Not really in the context that you are asking. We would talk when we had, for instance, a 707 flight from Kelly to Tel Aviv, that would come up, we would know that we were making that movement.

If we had a MMAO flight to [redacted] that would come up and we would know we were making that movement.

DCMN STEVENS

Q And would flights from [redacted] to Central America also come up?

A It would be the same thing, yes. Because you are looking at--when you are looking at the daily schedule you have actually several days, you have what happened in the immediate past and what you are looking at maybe flowed out as much as a week in advance.

MR. KIRSTEIN: If we have a moment, it might be helpful for you to go see the ops center because you can see how they do this, how they keep track of the flights, the ones from last week, next week, and the whole thing. Maybe at the end of the day.

BY MR. TIEFER:

Q I appreciate the offer.

Let me see if I understand. Certain information within the company might be on a need-to-know basis, but what you are telling me is that the destinations of each flight, where it came from and where it went to is something that has not been concealed from the people in the company?

A Let me answer your question this way. Let me answer it very emphatically, because I feel very strongly about this. There was never an attempt by Southern Air to hide destination or activity from people within the company. In other words, they knew, the people in the company knew

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that we were working on doing maintenance on 123 aircraft, they knew they were going to Central America, they knew that we had the 707 flights to Tel Aviv, they knew they came back through Lisbon.

That was all very open and above board. There was not a covert activity by anyone in any way, shape or form.

Q How in the context of such meetings would the fact that flight crews were being used to complete the flights through not on Southern Air Transport aircraft--I know I am getting ahead of the story.

A You are telling me something I have no first hand knowledge of.

Q No first hand knowledge of, okay. I will put it--let me rephrase the question.

A Okay.

Q Did the subject ever come UP LC in meetings of the use of Southern Air Transport flight crews to continue flights from Israel to Iran?

A No.

Q Did the subject ever come up in meetings of the continuation of flights from--that started in Miami or New Orleans and went to [redacted] Did the subject ever come up of continuation of these flights on from [redacted] to a contra's base in Central America?

A No.

UNCLASSIFIED

. Q To your knowledge, did these subjects come up in smaller meetings or groupings apart from the daily operations meeting?

. A I have to answer that yes, because as I told you earlier, I knew there was activity beyond Tel Aviv.

. Q And with respect to the continuation of flights fro[redacted]

. A That one--there was a base in [redacted] that I understood we went into periodically. But that was never--it was common knowledge and it wasn't.

. Q Can you explain that?

. A Well, if I went into dispatch and looked up on the board, I would see, I think I would see that stop.

. Q All right. That might suggest that it was common knowledge. How was it not common knowledge?

. A Well, I don't think it was ever talked about in the operations meetings.

. Q Can you explain to me the distinction between which matters are talked about in these meetings and which matters are not talked about in these meetings?

. A Well, if I fly an aircraft, take the Burlington aircraft that is sitting out on the ramp now, that will go to[illegible]t from Miami to Atlanta to Fort Wayne and return, if that aircraft leaves here and goes through Atlanta without any problems, I will never see Atlanta on the summary tomorrow.

The only way I will see it is if I have a problem. If I have a mechanic that holds me there, I will see the intermediate stops. When I have a long air flight that takes off from McClennan and heads east, I will see the origin and destination. It left McClennan and arrived at Warner Robbins, I won't see the intermediary stops at Hill and Tinker and so on, unless I have a problem.

Q Do I understand your explanation to be that the reason the stopping of flights at contra bases or other locations like [redacted] did not come up was simply because they were intermediate stops?

A That is what I am saying.

MR. TIEFER: Let's mark document 1809 as Exhibit 2.

[The following document was marked as Exhibit RNM-2 for identification:]

xxxxxxxxxx INSERT 1c-1 xxxxxxxxx

DCMN MILTON

BY MR. TIEFER:

. Q I show you a document numbered 1803 and ask if you can identify it.

. A This ir the organizational chart for the Marketing and Administration Department.

. Q I am aware that this is not your department; it is somebody else's department, and my questions will be relatively general about it.

What is Mr.--I see that you have a heading for a vice president for military and administration. Who holds that position?

. A Ray Taranto.

. Q How long has he been with the company?

. A He joined the company in 1980, somewhere around there.

. Q And what does he do generally?

. A He is a retired military officer and he works with MAC headquarters on our contracts for LOG Air, Quik Trans, short-range MAC international, this type of thing.

Also, as administration, he has reporting to him people that maintain the building and has responsibility for leases and this type of thing.

. Q In the event or on the occasions when Southern Air

Transport bids for Government contracts, the preparation for the bidding, does it come under his responsibility or somebody else's responsibility?

. A Depends upon what the contract is.

. Q All right.

. A If it is for--let's say the MAC flights that we do out of Norfolk and Charleston, if it is those particular flights that it comes out of the marketing department as a costing, but generally there is a meeting of senior management to be sure we agree on the price that is being bid.

. If it is the LOG Air and Quik Trans that comes out of my department. If you look at what has happened with the 707s and any long-range international business that we may have on those, the rate is already fixed and we can either accept what they are willing to pay or not. It is more a function of availability of aircraft than anything.

. Q If you charter planes from other companies--something that was done at least in the past. I would ask whether you still do it, but in general, who handles it and do you still do it on occasion?

. A Yes, we still do it on occasion. We do it when we don't have availability or we have a mechanical problem that prevents us from flying a particular flight. This is the most prevalent reason for us doing it at the present time.

That is generally handled through either the sales or marketing department.

Again, bear in mind that these two departments have just been split apart so there is still a little bit of overlap there as to who is going to do what.

Q Since the chart we have before us is before the Marketing and Administration Department, who within Marketing and Administration has primary responsibility for chartering aircraft?

A It would be Asa Hemperly, who is no longer in this particular--Asa or Charlie.

Q By Charlie, you mean Charles Carson?

A Charles Carson.

Q Now, when you perform charters, when other companies charter your aircraft, that does occur?

A When other companies charter our aircraft?

Q Yes.

A Yes, that is what we are in business for.

Q Distinguishing the two types of charters, who within the company handles those?

A It would--the call would come into the Sales Department and they would price it based on certain guidelines they have. They have a program that is set up in their PC over there. They plug in the origin and destination and it calculates what the costs would be. They plug in a routing, I guess is what I am trying to say.

. Q Is Mr. Hemperly primarily the person responsible for that?

. A Mr. Hemperly would be--Eric Korth is the person that heads that department, but Mr. Hemperly or somebody within that department, depending on who was on duty.

. Q Before Mr. Korth came in, which I understand was in the last month, who was primarily responsible?

. A It would have been either Mr. Hemperly or Mr. Carson.

. Q Now, the chart shows vacancies for the director of personnel. Have you had a director of personnel in the past?

. A Yes.

. Q Who was that?

. A His name was Carl Holeva, H-o-l-e-v-a.

. Q And when did he leave?

. A He left in late summer, August or September.

. Q And did he retire or what?

. A He was asked to leave.

. Q Can you explain why?

. A Since I was not a party to it, you know, I really don't know.

. Q Do you have any knowledge of why he was asked to leave?

A He was not doing his job.

Q Do you know where he is now?

A He is in Miami.

Q Is he--do you know of him working in a particular job now?

A I am not--I have not had any conversations with or about him since.

Q There is also a vacancy for the director of data processing. Have you had a director of data processing in the past?

A As such we have not had a director of data processing.

Q Have you had someone who was primarily responsible?

A We have had a senior programmer who has been responsible for the department.

Q Is he still here?

A Yes.

Q What is his name?

A Eric Huesh, H-u-e-s-h.

Q What is Bill Davis' position?

A Bill Davis is a manager of personnel.

Q And is that in a different department than the ones shown on document 1803?

A In this particular scenario, which only goes down to director level, I think probably he would be shown further back, he would fall under Ray Taranto as part of administration.

. Q How long has he been with the company?

. A Twenty years.

. Q What is his primary responsibility?

. A Right now his primary responsibility is personnel since there is no director.

. Q And there is a heading for a manager of interline.

. A Yes.

. Q What is that?

. A That is a person who arranges flights for company people, generally at a reduced basis because of interline agreements we have with other airlines.

. Q You were aware that there was a period when Southern Air Transport maintenance men were in Central America performing work?

. A Yes.

. Q Would the manager of interline have had anything to do with their travel during that time?

. A The manager of interline may have obtained tickets for that travel.

. Q Who in the company would have had--who in the company would have the best records for the period such people were down in Central America and their transport back and forth, not specifically what they flew on but the dates that they were down and the dates they came back?

. A Probably the best record of that would come off the Eastern UATP billing, which is a billing from Eastern--we use an air travel card--and it is the billing they send us monthly for those tickets.

. Q And who keeps those billings.

. A Our accounting.

. Q To revert to a previous exhibit, who in accounting keeps those?

. A It would come under the controller.

. Q And whose name is--

. A Dave Willse.

. Q How long has Dave Willse been with the company?

. A He joined the company in July.

. Q And your chief accountant is?

. A Daisey Saures.

. Q How long has she been with the company?

. A About 20 years.

. Q When the company acquires new aircraft, who in the company is responsible at the managerial level for acquisitions either by lease or purchase or any other method?

. A Give me a specific aircraft.

. Q When you bought your first Boeing 707.

. A That particular contract was negotiated by Dave

Mulligan with Kuwait Airways.

Q And who would have done the paperwork on that?

A What do you mean by paperwork? The actual purchase contract itself?

Q Or the preparatory work.

A That was before my time. Most likely it was prepared in Kuwait by Kuwait Airlines with some guidance from people here as to what Dave should look for, but you know, that is a gain, I am volunteering something that I don't know.

Q In any event--

A If you want to ask me about the lease on the--

Q I will give you an example. You have leased more aircraft from Transamerica.

A Okay.

Q Who handles the paperwork on that?

A Those lease documents were worked out at Transamerica between Transamerica, Bill Langton and Jim Bastian.

Q And who at the managerial level, if anyone, had any involvement in that?

A As far as the terms are concerned, nobody really.

Q As far as any paperwork whatsoever is concerned?

A Beyond the lease document, I am not sure what you mean by paperwork.

. Q Maybe there is none. If you know of no one having anything to do with it, then no one had anything to do with it.

. To go back to your responsibilities, you say you handle insurance.

. A Yes.

. Q Who is your insurance carrier?

. A Alexander and Alexander is the broker.

. Q Is there a particular person there who you customarily contact with?

. A Yes.

. Q Who is that?

. A A person by the name of Allen Winters.

. Q Where are they?

. A He is out of the Dallas office.

. Q You also handle bank relations?

. A Yes.

. Q I don't know whether you said lender relations or bank relations generally. Do you handle all such bank relations?

. A Yes.

. Q Who are the banks with whom you have important relationships?

. A We have two. Primary relationship is with Citizens and Southern, in Atlanta. Then we do maintain a small relationship with Southeast Bank here in Miami.

Q Who is the person you primarily work with at Citizens and Southern?

A A person by the name of John Getz, G-e-t-z.

Q In the Atlanta office?

A He is in the Atlanta office, yes.

Q And the bank in Miami that you named?

A A person by the name of Delora Montegue.

Q Without getting too detailed, what generally are the largest loans--if there are many or if there aren't many--what are the loans being carried by the company?

THE WITNESS: Can I ask my counsel a question?

Is this a question that I need to answer? That is proprietary information that I don't see has any bearing on it.

MR. KIRSTEIN: I am not exactly sure I see the bearing, but they have said they will keep it confidential, so go ahead.

THE WITNESS: Okay. We have a loan with Citizens and Southern that presently has a principal balance of something in the neighborhood of [redacted] that was obtained to purchase [redacted] That is the only loan that we have outstanding at the present time.

BY MR. TIEFER:

Q Okay. I believe you said Jim Getz was--

A John Getz.

Q John Getz. That loan preceded your time.

A Yes. Well, a portion of it did, yes. It was set up before I came. A portion of it, at the time I arrived on the scene, they had taken delivery of one aircraft. So I guess what I am saying is part of it was funded after I came here and it was a contingent loan for the third aircraft that came after I came here.

Q Do you know why the loan was obtained from Citizens and Southern?

A Yup.

Q Why?

A Southern Air Transport had been doing business with First Chicago for a number of years and had approached First Chicago on financing the 707s. First Chicago at the time had some problems of their own internally and were trying to cut back on their commitments and they would not finance the aircraft for Southern.

In searching about, we did get a line on, my predecessor Tom Crummey, got a line on Citizens and Southern, and they looked favorably upon it and put together the loan package.

Q How often do you have to make payments--does the company have to make payments to Citizen and Southern?

A Monthly.

Q And has it been keeping current in its payments?

A Yes.

Q With regard to correspondence, mail that goes out of say, your department to any other, is there any fixed pattern or format, such as in some operations there is a chronological file kept by which all the letters that go out regardless of their topic are kept in a stack?

A No.

Q Is there any format whatsoever or does each officer send what letters he sees fit?

A When you say each officer, are you asking about the others?

Q First I will speak within the Finance Department.

A Each person within the Finance Department can keep what he feels he needs to keep in any manner he feels he needs to keep it in.

Q Do you have any policies as far as reviewing letters at higher levels or can anyone write letters?

A Most letters that go out of the department are seen by either Dave Willse or myself, are signed by either Dave Willse or myself.

Q Do you keep a set of, copies of all the letters that you sign?

A Certain things I keep, certain things I don't.

Q Does Dave Willse keep a copy of the letters he signs?

A I don't know. You would have to ask Dave that question.

Q Has it happened that you have ever asked him to see a copy of a letter that he sent out and he says I don't have any copies?

A I don't ever recall ever asking him for that.

Q Do you have any knowledge of how correspondence goes out of other departments of the company?

A Inner-company or outside the company?

Q Let's start with outside the company.

A I really don't know. I would have to say no.

Q And within the company--why don't we start with your communications within the company. Do you send memos from your department to others or other correspondence from your department to other parts of the company?

A There is some that goes out but most of it is not written. Most of it is verbal.

Again, we are a very small company. It is not like I have got to deal with somebody several floors or miles away.

Q Do you keep copies of the memos that are sent from your department to other departments?

A Certain of them. It depends upon what the relevancy is. If it is a one-time thing, there is no sense cluttering up the files with dead paper.

. Q Do you keep them in any way other than in the particular subject files that the matter would pertain to? Do you keep any central file of the memoranda you have sent to other departments?

. A No, not really.

. Q Do you receive correspondence from, memoranda or the nature of that from people higher up?

. A Yes.

. Q Can you describe what kinds of things you receive?

. A Well--

. Q Do you receive a lot or a little?

. A There is not a lot of written memos that go back and forth within the company. Let me answer your question that way.

. Q Does the company have facilities for sending telexes?

. A Yes.

. Q And who is responsible for that?

. A Each department generally takes care of sending their own.

. Q Is there more than one telex machine?

. A Yes.

. Q How many telex machines are there?

. A I am not sure. There are four or five.

. Q Who within your department handles your telex?

. A I generally give them to a young lady called Claudette Anders to send.

. Q Do either you or she keep copies of all the telexes that go out or come in?

. A She does not. I am sure she does not keep any. I keep certain of them. If I am taking care of a matter that is disposed of by the telex or disposed of shortly afterwards, I am not going to keep a file of what I send.

. Q Do you keep any file, any central file of the telexes you send or does it go into whatever the file subject is?

. A It would go into the subject file.

. Q You may not know the details of exactly how many telexes there are elsewhere, but what generally do you know of who has the other telexes in the company?

. A They are in two places. There is one telex machine in the copy room here; the balance are over in the operations center. There are specific telexes that tie into the LOG Air and Quik Trans networks so those are separate units.

. Q But there is only one in corporate headquarters, is that what you are saying?

. A There is only one over here.

. Q By over here you mean in the corporate headquarters building?

. A Yes, sir.

. Q Is that the one that, the one you previously named?

. A It will only receive. It is not a sending unit. So we need to go across the street to send. It is a problem that has not been resolved yet and probably won't until those people move over here.

. Q Now, when did you move into this building?

. A November 15.

. Q Before you moved into this building, were all the telex--were you in the building across the street?

. A Yes.

. Q So you were with all the telexes that are over there.

. A Yes.

. Q With regard to the telexes over there which there were several, perhaps three or four?

. A Say three.

. Q Do you know who had those three telexes, who managed them or whose department they were in or can you describe them in any way?

. A They really were the responsibility of Ray Taranto in administration but I think they were more likely managed by the operational people because they were right next to them.

. Q Were the telexes to your knowledge used for coded messages or in any way secure communications?

. A To the best of my knowledge, no. I will give you one exception to that, because I am not--define what you mean by coded messages.

. Q Messages that a person with a regular knowledge of English language would not understand.

. A No. Let me tell you what it is so I don't cast suspicion on why I am hedging on that.

. Q Okay.

. A As part of the ACE account, there was a bank account in Panama, and I would originate transfers by telex from here and there was a coded authorization that went on that telex that they used to authenticate the validity of the telex.

. Q That is a helpful clarification.

. To your knowledge, that is the only coded authorization or other coded matters on the telexes?

. A I have never--I don't sit down and watch the telex machine--

. Q I understand that.

. A --crank away, so I never had anything I needed to answer or--

. Q Nor originated any?

. A Nor originate any.

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Q Apart from--I went right to telexes--what are the communications facilities of the company generally?

A Telephone, panafax, telex--I guess that would be, I guess the spoken word, written communications.

Q Does the company communicate by radio?

A Radio, yes, between--generally, though, between the aircraft and ramp control.

MR. KIRSTEIN: Only when they are in the area?

THE WITNESS: If somebody is out working on an airplane that is remote, and Miami is not a good place to look at it. Fort Wayne would be a better place where you are probably half a mile from the aircraft.

BY MR. TIEFER:

Q I understand.

A If you are in the maintenance office there and you have a mechanic out there working on the aircraft, they use radios to talk back and forth. If you need a part, you don't want to have to run a half mile in and half mile back. You call in and tell somebody what you need and they can bring it out to you.

MR. KIRSTEIN: If the plane is in the area, can't they, within a certain range, talk to them in the area right from the base here?

THE WITNESS: I think they can, but it is a fairly short range.

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MR. KIRSTEIN: Fifteen miles or something.

THE WITNESS: We are on final approach and we expect to be on the ramp in ten minutes. That type of thing.

BY MR. TIEFER:

Q Does the company have equipment for making its telephone communications secure?

A No.

Q Do you know of any occasions when any officers of the company have had such equipment for making telephone communications secure?

A Yes.

Q On how many such occasions have there been?

A I believe Mr. Langton had such a device.

Q Do you know when he had it?

A Latter half of 1986.

Q And other than that, you know of no other occasion when anyone within the company has had equipment for making secure a telephone communication?

A No.

Q Are there a large number of phone lines to telephone into the company or is there one central phone number through which all calls come in?

A There is one central number but there are several trunk lines associated with it. I should say there is one Miami number and there are several WATTS lines that come in.

There is probably three numbers but maybe 15 or 16 trunk lines associated with those numbers.

Q If people on the outside are calling different corporate officers, how many different phone numbers would they have to call those corporate officers?

A At this particular point in time--and there was a change when we moved across the street--at this particular point in time, taking me as an example, you could reach me through the main switchboard, main Miami number. You could reach me on the incoming WATTS line. You could reach me by another number which bypasses the switchboard and comes directly to my office.

Q You have a personal number?

A I have a direct line into my office.

Q Do a number of officers have direct lines?

A Yes.

MR. KIRSTEIN: Did you have those prior to moving over here?

THE WITNESS: No, we did not have them across--when we were across the street, it had to be either by the WATTS line or through the Miami number.

BY MR. TIEFER:

Q And who within the company handles phone bills, bills from the various telephone companies, whether long-distance or special carrier or local?

. A Ray Taranto, with one exception.

. Q And that exception is?

. A That is credit cards, credit card calls.

. Q Who handles credit card calls?

. A Those particular bills are distributed by Jose Martin, assistant treasurer, for approval. They go back to the individual.

. Q Have you ever known a corporate officer to send telegrams?

. A Telegrams? No.

. Q And I don't suppose phone messages when they are taken are kept in any central place?

. A No.

. Q Are copies, carbon copies kept of phone messages when they are taken?

. A I don't know what happens in other departments but in my department, no, they are not.

. Q You mentioned that there was data processing in the company. I show you document 1745. Do you want to do that?

. MR. TIEFER: Let's number the previous Exhibit No. 3.

. [The following document was marked as Exhibit RHM-1 for identification:]

xxxxxxxxx [INSERT 2-.] xxxxxxxx

BY MR. TIEFER:

Q Can you identify the document?

A This is a copy of a journal entry.

Q Can you explain further who creates this document?

A This particular one came out of payroll, created by Isabel Garrandes.

Q I see there is a series of letters and numbers in the upper right corner.

This is document 1745, four zero, HISBL, PR, et cetera. Can you go column by column and identify what they mean?

A I will identify the ones I can. I cannot tell you what the 40 is. That actually was on the form.

The next one, SAT is the company.

I can't tell you what the H stands for.

ISBL is short for Isabel.

PR indicates it is a payroll entry. That is the journal reference number.

Q What is the journal reference number?

A The ISBL PR. Each journal entry each month needs to have an identifier on it. So if we look we know where to go back and find the amplifying information for it.

Q Okay.

A And the--

Q There is a box checked ''yes.''

. A I can't--without--I don't work with these so I am not really that sure of the format. Without seeing a clearer copy, I can't tell you what it is.

. Q Then there appears to be a date, 19-86.

. A 10-86, that is the date that it was put on the journal entry, 10-31-86.

. Q And there is another date which seems to have the words above it transaction date.

. A That is what I said, 10-31-86, that is the date that--that is the transaction date. Period is the month that it applies to, month and year. Then the transaction date is the date that--it may not have gone in on 10-31-86 but that is the date that--

. Q This particular form has the handwritten words on it. Can you read them?

. A Yes. Bastian's help, not ACE.

. Q Can you explain that?

. A Yes. Mr. Bastian had a gardner and a maid at his house that are paid through the company's books that he reimburses us for. And the account number [redacted] is the pass-through account.

. Q Meaning?

. A It is an account that we would code this to and then in turn bill it out to him so that he can reimburse us for our costs associated with doing that for him.

. Q Now, why does it say, not ACE.

. A Because if you go to this document--

. Q A document not yet put in but will be.

. A Okay. And you look in October, you are going to see it in the ACE column, which is why the handwritten code at the bottom says ''miscoded.''

. Q You are pointing to a handwritten word in the lower left corner with underlining that says ''miscoded.''

. A Yes.

. Q Okay. That does not seem very sinister.

. A Let me say, if I can, let me just digress for a second and say, I don't want to go through a long story, but on the 20th of October, I got hospitalized and I was hospitalized for about six weeks. During this time, I should have been looking at this on a monthly basis and cleaning up that type of stuff. When David and Bob Beckman came down and said, You know, we need all these documents, this was in the ACE column on that sheet. What do I do? Do I not give you the document? No, I am going to give you the document, but I am going to tell you what it is and tell you it doesn't belong in that column and it shouldn't have been charged that way and it has since been corrected.

. Q In the left column, there is a heading, account number. Various digits appear under that. Can you explain what that signifies?

. A Those are the general ledger account numbers that these particular amounts have been charged to.

. Q Are there many such general ledger account numbers?

. A Probably with all the various combinations, there is probably two now.

. Q Is there a listing somewhere of what each account number signifies?

. A Yes.

. Q Who has that list?

. A It would be available in the Finance Department.

. Q Who maintains it as a regular matter?

. A Daisey Saures.

. Q And can you tell me the significance of the particular account number that was on the line which had the handwritten notation, Bastian's help?

. A It is a pass-through account. It is a place to accumulate charges that are not part of our expense which are going to be charged to a third party. Again, if I go back to this particular document, we pass through to Burlington Northern; we pass through to ACE, we pass through to others. And what I am saying is, again, that got put in the wrong column on that particular sheet.

. Q What I may do at this point is identify this document, but put it aside as an exhibit, take a break and then when we come back, start with this document. I think that will make the clearest sense.

Let's take a break and first this will be identified as Exhibit 4.

[The following document was marked as Exhibit RHM-1 for identification:]

********** [INSERT 2-2] ********

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[Recess.]

MR. TIEFER: Back on the record.

BY MR. TIEFER:

Q Going back to document 1745, we looked--you explained the significance of the account numbers. The next set of headings is what?

A This is the dollar amount.

Q And there is something like a two letter--

A To show whether it is a debit or a credit.

Q Now, you searched a number of documents including when you were providing documents to us. Did you pull all the sheets that had the [redacted] number on them or only some?

A In searching for these we went through the sheets that are being copied and pulled those documents that related to entries on that particular sheet.

Q What would be a convenient thing to call this, a computer ledger sheet? What would you refer to it as?

A It is a journal entry.

Q Journal entry.

A Yes.

Q But it is a particular type of journal entry or just a journal entry.

A Well, if you look--I wish we had it here--

Q Let's wait.

. A Let's wait, because I think it is easier.

. Q If we refer to these as journal entries but in a data processing format, did you pull all the journal entries in data processing formats for which you had that particular code number? Or did you only pull some of them?

. A We only pulled the journal entries that had to do with items that were on that sheet in the ACE column. In other words, if it was Burlington Northern or something that was in others, we didn't pull it because it had no bearing on what we were doing.

. Q Did you pull all the ones that had ACE's--there were in ACE's column?

. A All that we could locate. I think we located all of them.

. Q Now, you said this handwritten notation of Bastian's help was made after?

. A This was made after--this was made after it was pulled. What I had them do was go through, make copies of these and tell me what it applied to, because you can't tell--

. Q Do you remember any other documents that were produced that you made notations on or after they were being produced, or changes after they were pulled for production, so to speak?

. A I really don't.

Q To the best of your recollection, this is the only one?

A While all of the--yes, you have a collection of journal entries and all of them or most of them probably will have a notation on there as to what the charge was for. And that notation was made after the fact.

Q So each of the journal entries that has a handwritten notation, that notation was made after the fact?

A If there is something out in the description column, it probably was made after the fact, as was any note that was made at the bottom.

Q Such as the ''miscoded'' word?

A Yes, the ''miscoded.''

Q I will go on to ACE, but when we receive the copies of the ledger sheets, we will stop with ACE and come back to ledger sheets.

I show you a document that has the number 1442 and I will also show you a document that has--and I also show you a document that has a 963. I will ask you if you can identify these.

A Yes.

Q Can you identify the 963?

A 963 is a handwritten recap of the Banco de Iberoamerica account in Panama that I prepared. In the upper corner, I can't see the date it was done. Just

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looking at it--

Q In the lower left corner, I draw your attention to W/T.

A Right.

Q After that in the next column there is a date 6-26-86.

A Right.

Q Does that refresh your recollection?

A It would have had to have been prepared either in late June or the first part of July.

Q Did you prepare it?

A Yes.

Q And just so we get the distinction, what is document 1442?

A 1442 should be a continuation of the same document brought up through December 19 which is the date I prepared that one.

Q Before we go on, let's mark document 963 as Exhibit 5.

[The following document was marked as Exhibit RMM-1 for identification:]

xxxxxxxxx [INSERT 2-3] xxxxxxxx

MR. TIEFER: And mark 1442 as Exhibit 6.

[The following document was marked as Exhibit RHM-1 for identification:]

********** [INSERT 2-4] ********

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BY MR. TIEFER:

Q You prepared them both?

A Yes.

Q Can you explain why you prepared Exhibit 5, which is the June, 1986 report?

A This was a--if you will, this is a one-page summary of the bank account in Panama over which I had control.

Q Why did you prepare a summary at that time?

A It was an ongoing recap.

Q Can you--

A It just happened that my assumption is if you look at 1442, you can see that after the 26th, particularly on the bottom, after the 26th of June there was practically no activity until well into the fall.

MR. TIEFER: Now that we have had this document reduced, let's make multiple copies so we can have the usual three copies, if we can. We could get by; I can look at this while the witness looks at that.

MR. KIRSTEIN: All right. Will you still want copies of this, you know, because we are going to keep that.

MR. TIEFER: I will return to you the large sheets. We will use the small sheets as our exhibits.

MR. KIRSTEIN: We can try and get that copied later in large sizes.

MR. VAN CLEVE: At a later point, if we could have

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a section copied of this package.

BY MR. TIEFER:

Q I show you documents which have the number 402 at the bottom and then as you see on successive pages continue through 418. I ask if you can identify them.

A Yes, this is an internal working document from the Accounting Department which analyzes month by month the dollars that are put in the 14202 accounts which is a pass-through account.

Q Who keeps this document?

A Daisey Saures.

Q And what does she use as her basic material from which to make the entries?

A Comes out of the general ledger.

Q And the general ledger is what?

A General ledger is the historical record of all the transactions that take place within the company.

Q Perhaps you could explain to me, and pick any entry here that would be a simple one, from the moment that the charge comes into the company, how it arrives through the paperwork at an entry here.

A Let's take the first three because they are journal entries.

Q Are you referring to the one at the very top that says, AZH-AR?

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. A Right.

. Drop down about ten entries, you see an entry that says Chevron, USA.

. Q Yes.

. A For jet fuel.

. Q Yes.

. A For 27 and 2640.

. Q Yes.

. A Or 90, I can't tell. Looks like it changes from column to column there. 2726 is the dollar amount, anyway.

. Q This is the one where on the far right, where there are numbers, it is number 11?

. A I'm sorry. We can talk about either one of those, they are both the same.

. Q Let's use 11.

. A Okay. We would get an invoice in from Chevron for 2726.90, and in passing that through our review process, which basically is sending it back over to the flight operations and having them take a look at it and approve it, they said to us that this is not a fuel charge for Southern Air, this is a fuel charge for Burlington; either we had a mix-up in fuelers, we were using our aircraft and they saw Southern Air Transport on the aircraft, and so they automatically charge it to us rather than Burlington Northern, which happens, or we were refueling out of here and they fueled on our ramp and charged it to us. For whatever reasons, the fuel was charged to us rather than to Burlington Northern where it should have been charged.

Therefore, we need to pass that billing through to Burlington Northern so it is coded into the 14202 account, which is a pass-through account; therefore, it doesn't hit expense on our books, and from that we can cut an invoice to Burlington for that particular charge and get reimbursed. We would go ahead and process the invoice as if it were a normal payable in our system.

Q Now, in terms of the succeeding paperwork stages, the voucher comes in from Chevron, the voucher goes to flight operations, do they prepare any paperwork there?

A No, there is a stamp that goes on it and they indicate their approval and also they indicate that it is a pass-through item.

Q They don't--

A To Chevron.

Q They don't put an account number on it, though?

A No, that is done by the people in accounting.

Q It goes from them in flight operations to accounting?

A To accounting.

Q What do the people in accounting do?

A They look at it. They can see that it is a pass-through item. They know that if it is a pass-through item, it needs to go into this particular account; that is the account number that is put on it.

. Q They write the account number on the voucher?

. A On the invoice.

. Q On the invoice, excuse me.

. A On the invoice itself.

. It is then key-punched into the computer and two things happen: number one, it gets posted to the general ledger in this particular account, 14202; the second thing that happens is a check is cut to Chevron for that amount.

. Q To back up and take that in stages now, the first thing that happens is it is key-punched into the computer.

. A Yes.

. Q And I show you again Exhibit 4 and ask if that fits into the sequence, and if so, where?

. A This would--a journal entry is handled differently in that there is not a, for the most part, not a specific invoice to back it up.

. This is coming off of a payroll summary report and it is not, for instance, if you look at the second line item, which is 67330010L, which is sales people being charged to the Lockheed ad hoc program.

. Q All right. Let's back up. Among the--this is supposed to be described as a data processing sheet.

. A Okay.

. Q You pulled a number of data processing sheets to produce.

. A Yes.

. Q Were some of them ones which were based on vouchers such as the ones shown on 402?

. A They all had to be--anything that you see in this right-hand column that doesn't have a specific name that has a code like this, like the first three--

. Q By ''code'' you mean?

. A ACH-AR.

. Q Yes.

. A Is coming off a journal entry form like this.

. Q By ''like this,'' you mean in data processing sheet.

. A Data processing sheet, if that is what you want to call it.

. Q Okay.

. A So anything that came in this way I could not produce a document as I could on these others.

. Q Anything which has a coded name in the column in 402?

. A Right.

. Q So is the first step when you receive a voucher that one of the data processing sheets which you--what is the first step when you receive a voucher that has come over with--from flight operations over to accounting?

. A This has nothing to do with invoices per se, okay.

. Q So let's put Exhibit 4 to one side and not get it in the process at all. Let's not talk about Exhibit 4.

. A All right.

. Q Let's only talk about, you mentioned when invoices come over from flight operations to accounting, accounting puts an account number on them. Then they are entered into the computer.

. A Right.

. Q What form is used to enter them into the computer?

. A It is taken right off the invoice. You take a batch of invoices like so and they are put, input is directly off the invoice.

. Q Okay. And then where do the invoices then go after they have been used to--after the information has been taken off and entered into the computer?

. A They are put in a pending file. When the checks are run, the invoices are matched up with the checks or the checks with the invoices, depending on which way you want to go with it, and they are stapled together as part of an invoice package. The checks are signed, released, and the invoice package is filed.

. Q Now, is that checks before they are sent out or cancelled checks after they come back in?

A That is before they are sent out.

Q And then after a check has been compared with the invoice and the check is being sent out, then where does the invoice go?

A It stays stapled to that particular--there are two copies; there is a copy of the check that always stays with the invoice package, and that goes into the accounts payable file.

Q And is this a checking account that the company has with Citizens and Southern?

A Could be Citizens and Southern. It could be Southeast.

Q It is with one or the other?

A Yes.

Q Do you have multiple accounts or only one checking account with each bank?

A We have multiple accounts.

Q How many?

A We have--

Q Roughly?

A Well--

Q Ten, a hundred?

A No. Let's say seven. Each one serves a different purpose.

. Q I will leave it at that for now.

. Returning to 402, you were explaining the difference between regular names and letter codes such as AZH-AR and the letter codes are for what reason?

. A They are items that come in by journal entry. They could arise from several reasons. One reason that you see them in there is payroll. Each individual's salary is not--does not go in as an individual item. They are summarized by department or labor distribution category or whatever you want to say, and then they go in as a lump sum dollar amount for that particular line item.

. Q Not to go into a lot of detail, but just to take a couple examples from here, what is AZH-AR?

. A AZH-AR is an accounts receivable entry.

. Q What does AZH mean?

. A That is the person that put it in.

. Q Would that be--

. A That is Arlene Hernandez.

. Q What is DZYM15?

. A That is an entry that was put in by Daisey. Without seeing it, I can't tell you what M15 is, though. Looking at it, I wouldn't even want to venture a guess. It could be coming in from--the only checks that run automatically through the accounts payable system are the C and S checks, which is our primary disbursing account. If we pay something out of Southeast Bank where we also have a disbursing account, that could go in by journal entry--that does go in by journal entry. That could be where that is coming from.

Q What is it here that signifies that it has gone through automatically?

A I don't follow your question.

Q That is because I couldn't understand your previous answer, which I am sure was technically correct, but over my head.

A Well, where you see a name, okay, look at the James Bedgurl, below that, that went through the regular accounts payable system. There was a check cut on C and S Bank and the distribution was made automatically through the computer.

If you go up above that to where it says DZYM15, that is coming from--let me just give you an example. I am not sure it is true for this one. But say it is coming from checks written on Southeast Bank, which are all manual checks, they don't go through the computer, where a summary is made at the end of each month and they are distributed by account, but if I wrote five checks during the month that went into the same account, then instead of having five entries, only have one.

Q So you are saying some of these coded entries would reflect multiple salary expenditures?

. A Multiple expenditures or multiple transactions, yes.

. Q Looking down the page opposite the right--in the right-hand column that has numbering from 1 through 50 for each line.

. A I don't have it on mine, but that is okay. I can tell you about where I am--oh, I see, you are on the right.

. Q At number 17 there is a DAZYAR, or YAK.

. A Yes.

. Q Do you know what that signifies?

. A That says, see invoice 8631, but I can tell you that it refers only to the Burlington program because that is the column that is distributed in.

. Q Does the DAZ mean something?

.. A DAZ is Daisey.

. Q So it simply signifies by the coding that it is something Daisey put in?

. A Daisey put in and the YAK--maybe it is YAR, I think it is YAR, would indicate to me that it is an accounts receivable related entry. The fact that it has an invoice to it also indicates that.

. Q On line 41 there is a CNTLCR. Can you explain what that is?

. A The first part of it is an abbreviation for

Shantel, who is also a clerk in the department. And I think it is probably supposed to be AR rather than CR.

. Q The one below it is AR.

. A AR?

. Q And that means accounts receivable?

. A Receivable, yes. It is a credit entry that came in.

. Q Excuse me for going back, but at what point in the process at which the invoice moves through, is this sheet prepared?

. A This is done after the fact, after we have closed our books for the month and we have a general ledger total for the account, for the dollar amount in 14202. We need to go through then and determine what the components of that are so it--

. Q By general ledger account, you mean on the data processing, on the computer system they provided you with general ledger totals?

. A The financial statement would have this account, 14202 on it, on the balance sheet, and it would say there is $100,000 in there. I need to know what the components of that $100,000 are so that we can properly handle them.

. Q And so at the end of the month, sheets such as this are manually prepared?

. A Yes. Not only on this account but on several other accounts in the general ledger.

Q But not on all accounts?

A No.

Q Why on this particular one?

A Well, because you have got a possibility of putting three or more different items in the same account. You have got to be able to separate them so that they are properly--if I get a receipt in against one of these, I just can't, I can put it in this account but I got to know which one of these particular items it goes to or if I am billing out something, I need to know which I need to bill. If I billed Burlington Northern for something that really belonged to ACE, I don't think they would be very happy.

Q Do you have other pass-through accounts besides 14202000?

A No. This particular account is really kind of a holding account until you can cut an invoice and get it into the accounts receivable. It is part of the receivable section per se, but it is a way to avoid having to cut a small invoice.

DCMN ROSS

Q Looking at line 3 of DZYN-15, the $78,000 and change appears to have been allocated between B.N. and ACE.

A Allocation--well, go ahead. I am sorry.

Q Can you describe it better than that?

A Well, ''allocation'' is not the word to use because--

Q What was done with the $78,000 compared to those two columns?

A The $78,000 was made up of various items. I am taking this stance on that one, that it was the Southern Bank account, and there was out of that $66,000 worth of checks that were reimbursable to Southern written against Burlington, and there was $12,290.51 written which were reimbursable by ACE. So, it is not an allocation per se. It is not an arbitrary number. It is a finite number that you can tell by looking at the various transactions that make up the $78,000 number.

Q And do you know who determined which of the particular items belong in each column from the code? Is that what the code tells you? That is, Daisey, since her initials are in there, is the one who would have looked at the underlying five checks or any number of checks, which belonged to B.N., and which belonged to ACE?

. A Yes.

. Q Is there any way, without going to the underlying checks, to know what the bills were that the invoices were that were--that went to the ACE column, and which ones went to the B.M. column?

. A No.

. Q Do you have a word for describing, if ''allocation'' is not the word, ''distribution''?

. A ''Distribution'' is more the word.

. Q At the time that a distribution is made--that is, that the notation is determined to put $66,000 in one column and $12,000 in another--is any corresponding notation made on the checks or on any other paperwork, or is it only output?

. A The check itself--I can't say that about Southeast because there is not a duplicate. The invoice that makes up that package that was written on Southeast would have the notation that this is Southeast decs number 1234, and this is who it gets charged to. So there is an invoice that backs it up. It just doesn't reflect as it does with those that go through C and S on an individual basis.

. Q You have mentioned East, Inc. Did you have pass-through invoices for East?

. A I can't say for sure we did. It certainly was not--if we did, there only would have been a couple.

. Q I wish to phrase this question in a way that is most understandable to you, but what I want to know is whether any of the other corporate entities which have considerable interest in this matter were in pass-through accounts?

. A No.

. Q Okay.

. A If I passed a bill through to--or an invoice through to--ACE or to East, it might be something that we had paid for one of their employees when they were down here; that type of thing. But I just really don't recall.

. Q Now, before we go back to Exhibits 5 and 6, the ACE sheets, many times when we were discussing the ACE recaps you wanted to point to the ledger. Is there anything else you would like to explain from the ledger before we return to ACE?

. A I don't think so.

. MR. TIEFER: If the reporter will mark this Exhibit 7.

. So the record is clear, we were originally supplied sheets 402 through 418 in a format that is twice as wide as normal long paper. These sheets have been reduced, but without any change in the content for use as exhibits.

. [The following document was marked Exhibit RHM-7 for identification:]

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2130 ******** INSERT 3-1 ********

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BY MR. TIEFER:

Q Looking at Exhibits 5 and 6, documents 963 and 1442, at this point I don't really want to go through a full story of the history of ACE, but I wish to identify documents and corresponding documents.

The top part of the recap has a heading for deposits. What does this signify?

A These are monies that were put into the ACE B account in Panama.

Q And what did you use as your underlying documentation for making the entries on this recap sheet?

A Wire transfer forms.

Q Did you use the wire transfers that the bank received or some sheet that the bank gave you? Do you understand that question?

A I'm not sure I understand the question.

Q All right.

Did you produce to us the documentation that underlies the entries on this recap sheet?

A Yes.

Q Do you happen to know what its number was?

A No.

Q I show you--

A May I look through your documents?

Q You may certainly look through them.

I show you documents 981 through 1035 and ask you if you can identify them? Actually, let's make that through document 1036.

A Okay. 981 through 1035 appear to be transfer documents, both in-coming and out-going, plus statements for the ACE B account at Banco de Iberoamerica.

Document 1036--

Q If you will, let's pull 1036 and not include it in this exhibit.

A That is not--I don't know where that one came from.

Q It is in Spanish, anyway.

The documents 981 through 1035, are these the underlying documents from which the ACE recap--that are documents 963 and 1442--was prepared?

A Yes.

Q And, to repeat the question I just asked you, but in another form, did you use these documents, 981 through 1035, to prepare that recap?

A Yes.

Q I am not going to go through them one-by-one at this point, but to take 981, can you explain how you took information from 981 and entered it on the recaps?

A 981 is an in-coming wire transfer for $450,000, and it is shown on line 3 of 1442.

Q As $450,000?

. A As $450,000.

. Q What is the date shown on document 981?

. A The 14th day of November, 1985.

. Q Is the same day shown on documents 1442 and 963?

. A Yes.

. Q Now, I believe that at the time that we went off of Exhibits 5 and 6 and went on to some other exhibits, you were going to explain why it was that at those particular times, June 1986 and December 1986, you prepared these recaps.

. A The June 1986 recap is the one that was available when Mr. Kirstein and Mr. Beckman came down. If I recall, it was right almost the 1st or 2nd of December. As I explained before, I went in the hospital the 20th of October. I came back to work the 29th day of November. I worked through that weekend, because I knew they were coming, trying to get stuff together.

. One of the things I did not do was update this. This was not done. 1442 was not updated until the 19th of December. So, this--when they first came down, they were given this as the activity in the ACE B account.

. Q You mean the June sheet?

. A Yes, the June sheet. I updated that particular--

. Q You did the December sheet as an update?

. A Yes, I did the December sheet as an update to bring it up through the 17th of December.

Q Were you asked to, or was this something that just occurred to you to do as a way of--

A A little of both. I mean, it needed to be done. I was sure somebody would ask.

Q And the June sheet, why was the June 1986 sheet, the recap, prepared?

A Just as a general recap of where we were.

Q No one asked you to do that?

A Nobody asked me to do that.

Q Who did you show it to after you did it?

A I don't think I really showed it to anybody.

Q Did you use it as a basis for telling anybody anything? For example, did someone ask you for a total, or did you use it as a basis for giving the figure of $1,395,022.03 that had been wired in?

A No.

Q Did you use it for any purpose?

A I think it was for my own information, to--

Q Did you make use of the information after you had thereby arranged it?

A Only to the extent that I was comfortable that I had captured everything that had happened in that account.

MR. TIEFER: Before we lose track of them, let's mark documents 981 through 1035. We will not staple them,

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but we will clip them. Mark them as Exhibit 8.

[The following document was marked Exhibit RHM-8 for identification:]

******** INSERT 3-2 ********

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BY MR. TIEFER:

Q Looking at the lower end of the recaps, there is a column headed ''Disbursements.'' Can you signify what those are?

A Those are payments that were made out of this same account.

Q And what were you using for the underlying documentation to prepare that?

A With the exception of the first two items--I will take that back. With the exception of the second item, which was a check that was written, it is the bank transfer documents that were labeled Exhibit 8.

Q That came from Banco de Iberoamerica?

A Right.

Q You excepted one item. Which item did you except?

A The second item, which was a check that was written to Intertrust.

Q What bank account was that written on?

A It was written on the Banco de Iberoamerica.

Q Was there some reason that was not reflected in records you received from Banco de Iberoamerica?

A It was. It shows on the bank statement on document 1034. And there is a copy of it on 1035. There is a copy of the check, and there is the bank statement showing it being charged off.

. Q Do you have some recollection of some or all of these transactions, the wire transfers that are reflected on the recap sheets?

. A Yes.

. Q Let me ask you: Under ''Disbursements,'' on January 21, 1986 there is a wire transfer to [redacted] of $20,037.50.

. A Yes.

. Q Do you recollect the circumstances under which that wire transfer was made?

. A That wire transfer was made as a result of a phone call from Dick Gadd asking me to transfer from this particular account operating funds to a bank in [redacted] [redacted]

. Q Did he say this was for the benefit of some particular person?

. A If you go back to the underlying wire transfer, you will see a name on it.

. Q I have.

. Is Edward DeGaray the name?

. A That is the name.

. Q Why was a transfer being made for Mr. DeGaray's benefit to [redacted]

. A That, I can't tell you.

. Q The wire transfers in the ''Disbursements''--no, I won't go one-by-one. We may very well come back to this recap sheet. It would not surprise me.

. I show you documents which have numbers between 452 and 475. I am not certain--yes.

. Can you identify them?

. A These are cash receipt forms that we use internally to distribute daily cash receipts or wire transfers. Going through here, there are two types of wire transfers that I see. There are some that relate to the pass-through account, 14202, which are monies that came in to pay for maintenance work that we did on these aircraft.

. Q By ''these aircraft,'' you mean--

. A The Caribou and the C-123.

. In the back of the package, you start to get into some flight revenues that pertain to the Tel Aviv flights.

. Q There is one document in this stack, which is document 464, which I would like you to look at. Actually, I don't mean to imply it is the only one. There is at least one document in this stack which does not follow the format of a cash receipt. Let's pull that out separately and make that--look at that separately.

. Either from looking at it or from your own recollection of a perhaps clearer original from which this copy was made, can you explain what document 464 is?

. A This was a note that I gave to Daisey telling her that I had--that we had received in C and S Bank a wire for $242,000, and this was the distribution that needed to be made. Part of it went to flight revenue, and part of it went to the pass-through account.

. Q Does that mean there is a ledger sheet on which the distribution you just described is reflected?

. A I'm not sure I follow your question.

. Q All right. You previously explained, in identifying certain Southern Air Transport documents, that they include distributions of amounts between ACE and other entities.

. I am asking whether there is a similar sheet that would have this distribution?

. A If you went back to the outside page and looked in the month of June of 1986, you would find a credit to the 14202 account of $150,000, because that is where that was booked. The $92,000 would have gone to flight revenue, and it would have gone against a particular invoice, 5899-A.

. Q I think perhaps I have failed to lay a proper predicate.

. Do you keep ledger sheets concerning in-coming amounts? The previous ledger sheets concerned invoices, outgoing amounts. Do you keep ledger sheets for in-coming amounts?

. A The previous--the handwritten ledger sheets is what you are talking about?

Q Yes.

A That has a combination. If you look--remember, we looked at Shantel A.R. That would reflect in-coming amounts.

Q So they are combined on that sheet.

A So they are combined on that.

When you go back to this to get the underlying detail, you see that.

Q So there would be an entry on one of those sheets corresponding to it.

A Can we go back to it?

Q By all means.

A I think this may help you to understand. I may need yours, David.

MR. KIRSTEIN: Sure.

THE WITNESS: I think I can do it.

MR. KIRSTEIN: You can see it much better here on 406. If you look in the month of June, on line 43, there is $175,000 credit.

MR. TIEFER: Which sheet number is that? Is that the top sheet?

MR. KIRSTEIN: 406.

BY MR. TIEFER:

Q We are going back to Exhibit 7, page 406.

A Right.

Q You are saying which line?

A 43.

MR. KIRSTEIN: 43.

THE WITNESS: There is a credit of $175,000. It is bracketed.

BY MR. TIEFER:

Q Yes, CHT. It reads across CHT, LCR, cash receipt, and a bracketed $175,000.

A That is made up of two items. It is made up of this $150,000--

Q Slow down so the record will be clear.

When you say the $175,000 is made of two items, you are going back to the cash receipts that is document 463. So let me get document 463.

You are saying that that $175,000--

A Is a combination of the $150,000 on 463, and $25,000 on 461, both of which came in in the month of June.

Q Why were the two cash receipts combined into one ledger entry?

A Because that is the way we do it. I mean, this is the detail day by day, and we don't post day by day. We only post once a month. So everything that they have that goes into 14202 gets rolled into one entry and posted.

Q Were these cash receipts the underlying documentation used to prepare the ledger sheets?

. A Yes.

. Q So to make a parallel, as we use vouchers to prepare the ledger entries for disbursements, you use cash receipts to prepare the ledger entries for money received?

. A Yes. And if--we don't use vouchers, but if we did they would be backed up by an advice.

. Q An advice.

. A These are backed up by a wire transfer advice.

. Q You are pointing to page 462, which is a credit advice. Do you receive these credit advices from the bank?

. A Yes.

. Q And when you receive the credit advices, you then prepare the cash receipt forms in-house?

. A Right.

. Q And then you use the cash receipt forms to make the ledger entries?

. A Right.

. Q And do they also go into the computer, the general ledgers that you keep on the computer?

. A The summary would.

. Q The summary would.

.- A In other words, the CH, whatever it is, Shantel, A.R., is a journal entry that would go into the machine.

. MR. TIEFER: Before we go further, let's mark pages

452 through 475 as one exhibit, and that does not include pages--

THE WITNESS: 464 and 474.

[The following document was marked Exhibit RHM-9 for identification:]

******** INSERT 3-3 ********

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BY MR. TIEFER:

Q Now, to go back to 464, the handwritten note we were talking about, you were saying that this represented a communication by you about a distribution of funds?

A Yes.

Q Would you explain again what the amount--the amount being distributed, what was that?

A The amount being distributed was $242,000, and $150,000 of it went to the pass-through account; $92,000 of it went to the flight revenue account.

Q Now, if we can look at page 465, which should be in Exhibit 9, can you identify page 465.

A 465 is a wire transfer advice from the Citizens and Southern Bank.

Q Does it reflect the transfer, one transfer or multiple transfers? It is not a trick question.

A I am having trouble reading it, but it is one transfer. It is $242,000.

Q Is that related to the handwritten notation that is document 464?

A Yes.

Q What is the relation?

A It is the exact same transfer.

Now, let me carry that just a step further, if I may. I would call the bank every morning and get my activity and in-coming wire transfers for the prior day, and so forth. This advice would not come through--might not come through for a week, so this was my way of saying this is what is in there; this is how it needs to be distributed. And then this would show up, and we would make out the underlying receipt form.

Q When Citizens and Southern speaks to you on the phone, is it the person who normally handles your account, or is it some other operations officer?

A It is an operations person.

Q Do you recall the circumstances surrounding this $242,000 transfer, and why you made the notation that it is to be distributed into two amounts?

A My recollection of it is that we had $242,000 hit our account, and I asked Bill Langton if he knew what it was for, because it was an odd amount.

Q What did he say to you?

A And he said the balance was as it was; the $92,000 was the balance on a Tel Aviv flight, and the $150,000 was towards maintenance and parts support that we were providing.

Q To whom?

A To the C-123 and the Caribou, for ACE, Udall, Corporate Air; call it anything you want.

MR. TIEFER: The record should reflect at this

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point that I am proceeding with counsel, Mr. Van Cleve, on this complicated accounting.

BY MR. TIEFER:

Q But you are saying that, as you understood it, this one wire transfer covered both payments that were made, transfers that were made into your account, concerning the Tel Aviv flights and concerning the Central American activity?

A That is true.

Q We will probably come back more on this when we take these matters chronologically, step by step.

MR. TIEFER: Let's mark this Exhibit 10, document 464, the handwritten notations on the Robert Mason pad as Exhibit 10.

[The following document was marked Exhibit RHM-10 for identification:]

******** INSERT 3-4 ********

UNCLASSIFIED

BY MR. TIEFER:

Q Looking at document 474, can you identify that?

A This is an invoice that we cut for the February 15 Tel Aviv flight.

Q And who were you charging?

A The invoice was cut to East, Inc.

Q Do you want to give some explanation as to that invoice?

A Could you explain your question?

Q Well, let's go about it differently. Are there many invoices in your files to East, Inc.?

A All of the MHAO flights were billed through East, Inc.

Q Other than the MHAO flights?

A There is very few.

Q Was there another way you had of receiving payments from East, Inc. besides sending invoices to it?

A Any time I invoiced East, Inc. directly, I was paid by check. Okay? This particular invoice was cut to East, Inc., and I am not sure it was ever sent to East, Inc. The money for this flight came in by wire transfer, and I would want to go back and check the dates, but my recollection is that the funds came in prior to or shortly after we performed the service. And the reason for cutting the invoice was more for our internal revenue control than it was to bill a particular customer.

If you look at the bottom, you can see a revenue distribution on this, 32072. That tells me where that is booked--to charter revenue, ad hoc revenue, and the Boeing aircraft.

Q Now, there are a number of other occasions reflected in the cash receipts when you received wire transfers from East, Inc. Are there invoices for those other occasions on which you received wire transfers?

A I would want to look at the specific items.

Q You mean, to your recollection, there were some occasions when you received wire transfers when there might have been vouchers?

A I don't ever recall receiving a wire transfer from East, Inc. The fact that--I guess the thing I need to say is, in this whole scheme of things, what-have-you, we probably were not careful enough to distinguish between East, Inc. and Udall and Corporate Air, and, you know, who in the hell is the customer.

Q And--

A And, you know, maybe we had a generic term. That was ACE that covered a lot of it. But I think a lot of it may have been improperly assigned to East.

Q Was there a particular reason this was assigned to East? That is, the invoice that is document 474?

. A I don't honestly remember. Do you want--

. Q Do you want to explain? Go ahead.

. A My recollection is that, in my mind, this may have come through Dick Gadd.

. Q All right. But you are saying that, in general, for your accounting you had difficulty distinguishing what payments you were receiving from one of the--you just named a series of corporate entities, and you had trouble distinguishing on which behalf each particular wire transfer was received from?

. A That is basically right.

. Q Some of those wire transfers were on behalf of activity related to flights connected with Tel Aviv, and some of that activity was for payments in Central America. But it was difficult to distinguish sometimes which payments were in which matter?

. A No. We can distinguish which payment was for what.

. Q Then, what was it that was difficult to distinguish?

. A In the Accounting Department, I think it was difficult to distinguish who should we really charge that for. We got paid up front.

. Q You received wire transfers.

. A We received wire transfers. We were paid before, for the most part, before the flights took place, or before the activity took place. I got the money. I don't really need to send an invoice to anybody.

Q You were not always exactly sure who or what the money was going to be for?

A No, I was always sure what the money was for, but I wasn't really sure who was behind it.

MR. KIRSTEIN: Can we go off the record, and then I can explain something.

MR. TIEFER: Let's go off the record.

[Discussion off the record.]

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MR. TIEFER: We are back on the record.
Let's mark document 474 as Exhibit 11.

[The following document was marked Exhibit RMM-11 for identification:]

******** INSERT 3a-1 ********

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BY MR. TIEFER:

Q I show you documents that are numbered 1687 to 1692--excuse me. Make that 1687 to 1691. I ask you if you can identify these?

A These, again, are cash receipts with the underlying wire transfer advices that came in in May of 1986.

Q And what activity by Southern Air Transport were these related to?

A There are notes down in the bottom which indicate that one item was for some Jetstar trips--this is flight activity--and two were for invoices. I can't read the copy. I know we went back one time and tried to clarify that, but I don't remember what I found on the originals. It had to do with the May Tel Aviv trip.

Q Fine.

MR. TIEFER: Let's mark this as the next exhibit.

[The following document was marked Exhibit RMM-12 for identification:]

******** INSERT 3a-2 ********

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BY MR. TIEFER:

Q I show you a document numbered 1692, and ask you if you can identify that.

A This is an invoice that was cut for the May Tel Aviv flights with [redacted] return to [redacted]

Q Now, keeping in mind your description of the previous invoice, to your knowledge is there a specific wire transfer relating to particular amounts shown on this sheet?

A There is a wire transfer for--if you look where it says ''less prepayment''--

Q Yes.

A --I think it is $350,000. I think that wire was in the prior package that we looked at. No, it is not.

MR. KIRSTEIN: 1789, I think, is the document.

THE WITNESS: Then it is right here, for $410,000, 5/23, document 1688. It is part of the $410,000 wire transfer.

BY MR. TIEFER:

Q 1688 shows a wire transfer at the request of Hyde Park Square Corporation. Is that correct?

A That is correct.

Q Can you explain the relation of the $410,000 on 1688 to the figures on 1692?

A The $410,000 came in, and again it was a distribution. If you look at the invoice number, the invoice number is 5899. If you look at the fifth line, you can see invoice 5899 got $350,000 applied to it. $50,000 was applied to item number 3. And I apologize I can't read that.

. Q Could it be the word ''Jetstar''?

. A Jetstar, it does say. But what in relation to the Jetstar, I don't know. It could have been Jetstar parts. It could have been a Jetstar trip.

. Q To clarify for the record, you are referring back to page 1687, which is a cash receipt?

. A Yes.

. Q The name for the cash receipt is Udall?

. A Right.

. Q In the description column, it has ''INV 5899.''

. A That is correct.

. Q Then, in the next column, it shows $350,000.

. A Yes.

. Q And so you are saying that the $350,000 for invoice 5899 for Udall corresponds to the $350,000 shown--

. A As the prepayment on 1692.

. Q Okay. And does this amount, again--does this distribution reflect the distribution that you were instructed to make by somebody else?

. A Yes.

. Q And by whom?

. A It would be Mr. Langton.

. MR. TIEFER: The best thing would be between today and tomorrow, if we can ascertain the last number--

. MR. KIRSTEIN: We can give it some numbers, that two-page summary.

. MR. TIEFER: Exactly.

. MR. KIRSTEIN: You have the index.

. MR. TIEFER: There might be another page or two after that index, because you have been producing pages one by one.

. MR. KIRSTEIN: I think the last page was maybe 1819.

. MR. TIEFER: Why don't you number this and produce it to us. I am, by and large, not requesting production of additional documents during the deposition, because we can do that in an organized fashion. But since you have just prepared this, we will use it tomorrow.

. MR. KIRSTEIN: The only two pages that need to be numbered are the first two. The other ones, you have.

. MR. TIEFER: I think we--

. MR. KIRSTEIN: Why don't we do it now? I have discovered that, in some cases, the same document has been produced twice because we have made so many productions, and Bob would look for things and he would send it to us, and we would list them as new documents when, in fact, we had already produced them.

MR. VAN CLEVE: Could I ask a clarifying question? This purports to be essentially a sort of summary of a number of the transactions that we have been asking questions about?

MR. KIRSTEIN: This just chronologically summarizes the Tel Aviv and [redacted] flights, and I guess also the Tel Aviv-Iran flight group segments are in here.

What I have done--Bob didn't do this; we did it at our office--is write down here the document numbers of the documents you have, which represents the payments for these different flights. Then, what we did was wrote them down here on the sheets. When Bob produced this, he sent me these, but he didn't have the numbered ones so we went back through to get the correlation. So that is why they are written-in by hand.

MR. VAN CLEVE: Do they show the distributions?

MR. KIRSTEIN: For example, the one we were just talking about, that $410,000, you see it says $350,000 applied to Tel Aviv flights. That doesn't have what the other $50,000, whatever it was, is.

MR. SMILJANICH: $60,000.

MR. TIEFER: $50,000, with the notation of the Jetstar.

MR. KIRSTEIN: Right. That is not in here. All these two pages do is try to figure out where the funds came from to pay for these specific flights, the Kelly, Tel Aviv, [redacted] And, like for here, for example, the October 1986 Tel Aviv to Tehran flight, they still owe us for that. It was never paid.

MR. VAN CLEVE: Just to make sure I am clear, you are not trying to show the complete and internal flow of funds that you received from the bank?

MR. KIRSTEIN: No. It just shows which cash receipt forms and wire transfers go with which payments here.

MR. TIEFER: It is around the time when I should check--off the record.

[Discussion off the record.]

MR. TIEFER: Back on the record.

Would you mark this Exhibit 13, document 1692?

[The following document was marked Exhibit RNM-13 for identification:]

******** INSERT 3a-3 ********

BY MR. TIEFER:

Q I show you a series of documents which have the numbers on them 1758, 1759, 1773, 1774, 1775, 1776, 1777, 1778, 1779, 1780, 1781, 1782, and I ask you if you can identify these?

A These are the documents that have to do with the [redacted] only flights.

Q Although the format is familiar, would you explain what type of documents they are?

A These are cash receipts and wire transfer advices.

Q And--

A And they reflect the payments for a December 1985 and April 1986, a March 1986--February 1986, I guess it really was--and a flight, flights, from [redacted] to Central America, and a portion of the crew-only Tel Aviv to Iran flight that took place in August of 1986.

MR. TIEFER: Would you mark them as the next exhibit?

[The following document was marked Exhibit RHM-14 for identification:]

xxxxxxxx INSERT 3a-4 xxxxxxxx

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BY MR. TIEFER:

Q Before you joined the company, but as we previously alluded to, there were flights from [redacted] to Central America in January, early 1985, January 1985.

A I'm not sure. I don't know what the routing of those flights were. I know there were two flights before I joined the company.

Q Have you at some point pulled underlying documentation showing payment for those?

A Yes, we have done that. We have already gone by it.

Q Fine.

MR. KIRSTEIN: I saw them sitting right up here for a second.

THE WITNESS: Yes.

MR. KIRSTEIN: They have Arrow written on the top of them.

BY MR. TIEFER:

Q Documents 1785 through 1795, I hand those to you.

A Yes.

Q Would you explain the letter that is written on top, and then the underlying documents?

A Okay. The letter that is written on top came as a response to the request from the FBI that I ask Citizens and Southern Bank to give us any additional information they had

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on the underlying wire transfers, particularly the bank of origin and, if possible, the account or customer for whom those wire transfers were originated.

This is the reply that came back from John Goetz at Citizens and Southern, and the basic conclusion, or the basic piece of information that he was able to provide from their wire transfer department was the origin of the wire transfers at Credit Suisse. But no additional information is available from their wire transfer department as to who may have originated those.

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Q Did you have any of the documents, 1786 through 1795 in Southeastern Air Transport files prior to this request?

A The documents came from Southern Air's file. These were furnished to him, and he was asked to go back and give us any additional information that they had on it.

Q Then if I can understand the sequence, let's go through the sequence in general. When Southern Air Transport receives through Citizens & Southern Bank a payment by wire transfer, you previously said the first you would know of it is a phone call with the bank in which you daily discuss what has come in.

A You want to talk wire transfers in general, or you want to talk these in specific?

Q Let's talk wire transfers in general.

A Okay. For the most part, I am aware before I receive it that a wire is on its way. A customer, we sold an ad hoc charter, and it is going to be paid by wire transfer, and the sales department says be on the lookout for this wire and this amount because it is coming in.

For instance, my log air contract, the money is wire transferred every Friday.

Q This is the log air contract, you mean the United

States Government contract?

. A A United States Government contract.

. Q For Air Force services?

. A For Air Force services. That money is wire transferred every Friday to my account. I know on Monday or Tuesday how much is coming. With these particular items, I would generally be told ahead of time that ''X'' number of dollars is being transferred and be on the lookout for it.

. Q Besides the United States Government paying for log air and quick trans--

. A Okay.

. Q Am I wrong?

. A Those are not originated by the government. Those wire transfers are originated by a representative that we have at Warner Robins--or in Dayton, Ohio, who prepares the vouchers, picks up the checks, deposits it in the bank up there, and the next day wire transfers to us.

. Q So the payment by the Federal Government is by check.

. A It is by check.

. Q And it is simply transferred on--

. A Wire transferred to get it down here faster.

. Q Is a bank used to change the check into a wire transfer? How is the check made into a wire transfer?

. A The check is made out to Southern Air. We maintain an account at the First National Bank of Dayton. It is deposited in that account, and this representative has the authority from us to wire transfer the funds the following day to us.

. Q I asked you earlier where you had bank accounts in addition to Citizens & Southern and one here in Miami, you also have one in Dayton.

. A I have one in Dayton, which is nothing more than, it is a holding account overnight for--I could tell you, I also have an account in Fort Wayne which is a small operating account. I have an account in California.

. Q Slow down. The one in Dayton is at what bank?

. A First National Bank of Dayton.

. Q The one in Fort Wayne is at what bank?

. A I can't tell you. Fort Wayne National Bank, or something like that. It is an impressed account.

. Q And where else besides Dayton and Fort Wayne?

. A I have one with the Bank of America in California that is used by the West Coast people for small purchases.

. Q All right.

. A These are all very tightly controlled accounts for which, I mean, if you are looking at where receipts--

. Q For specialized purposes, is that how you are describing it?

. A Yes.

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Q Are there any others besides Dayton, Fort Wayne and Bank of America in California?

A I have one recently set up in London because we set up a London sales office.

Q When was that set up?

A I think it was in December.

Q Do you have any overseas bank accounts? Does Southern Air Transport have any overseas bank accounts?

A The only overseas bank account we have is the one in London which was just recently set up.

MR. KIRSTEIN: How about ACE?

THE WITNESS: ACE is not a Southern Air entity.

BY MR. TIEFER:

Q The Bank of America account in California. Bank of America has a lot of branches in California. What city is this branch in?

A Sacramento.

Q I am going to ask this question in a way that will be comfortable to you. Were any of these specialized accounts used for transactions relevant in some way to the Iran and Contra matters?

A No. The only two accounts--and I will make this statement very emphatically--the only two accounts through which those monies flowed were the C&S account, which you have here, or the Banco de Iberoamerica account in Panama.

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Nothing else was used.

Q Okay.

A With one--

Q Go ahead.

A With one exception.

Q That exception is?

A There was one check for the $475,000 which ran through Southeast Bank for the purchase of a cashier's check for the purchase of a C-123, and that was because some wire transfers got fouled up.

Q Since you made a distinction between there being no overseas accounts for Southern Air Transport, and the overseas account that was maintained for ACE, I am now looking for generic description, how would you describe the overseas ACE account in relation to you, so I can ask you whether there were any others like it overseas?

A ACE was not, in my mind, was not a Southern Air company.

Q What was it in relation to Southern Air? Could I call it a related company? Would you prefer it to be called a customer?

A I would prefer to have it called a customer.

Q Okay. Do you maintain any other, or has Southern Air Transport had bank accounts for any other customers overseas?

A To the best of my knowledge, no. I can only go back to August of 1985.

Q Has Southern Air Transport had any bank account for customers in the United States?

A No.

Q I was starting to ask earlier about wire transfers, and then you clarified the wire transfers you received from Dayton are not really from the Federal Government. You received payment from East and similar companies by wire transfer?

A No. I received a wire transfer from East. That is a very strong distinction. I made that before.

Q Okay. Let's put it the other way around, which customers have you received--which customers of Southern Air Transport have paid by wire transfer?

A In relation to what we are talking about?

Q No, in general.

A In general?

Q Yes.

A For the most part, any ad hoc charter that we do, where we don't know the customer or we don't have good credit history with the customer, they have paid by wire transfer. In other words, you pay us first before we perform the service.

We have a [redacted] contract that is

administered by the Office of Aircraft Services out of Boise that pays by wire transfer.

Q You mean the Federal Government pays you by wire transfer in that instance?

A In that instance. We have an aircraft that flies for a company called the International Aircraft Services out of Ireland where we are paid by wire transfer.

Q This is IAS.

A IAS. It is log air we talked about, which does, Quicktrans comes by check, MAK comes by check, JAL comes by check.

Q JAL is Japan Airlines?

A Yes.

Other than the activity that is the subject of this particular--

Q I understand your answer.

Apart from companies related in some way to the Iran and Contra matter, the only other customers that you can recall paying by wire transfers are companies, customers connected with ad hoc charters [redacted] and IAS?

A I think that is correct.

Q Now in the case of ad hoc charters, are these wire transfers always from domestic banks, or do you sometimes receive wire transfers from overseas?

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. A Almost without exception they are from domestic banks.

. Q Your answer implies there might be some--

. A There might be, you know, right off the top of my head, I can't think of any that have come from overseas, but that is a possibility.

. Q Would you have received any wire transfers from overseas other than through C&S bank?

. A One of the transfers that related to a Tel Aviv flight was received through First National Bank of Chicago, and that had to do with somebody having some old information and transferring it to our account at First Chicago. It took us several days to figure out what happened on that one.

. Q We may get to that through the chronological account, but why don't you explain that? We may come back to that in a chronological sequence, but why don't you explain that wire transfer through Chicago?

. A Let me check the date on it. It had to do with a February 17 transfer for $270,000 against the February 1986 Tel Aviv flight, and it did go to the First National Bank of Chicago.

. Q Do you know why it went to the First National Bank of Chicago?

. A Well--

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Q Who had the old information you were just talking about?

A Whoever originated it. I am not sure who originated it. The name that I have on the wire transfer means nothing to me.

Q Do you have any basis at all for any understanding whatsoever as to why a wire transfer of that sum would have gone to the Chicago bank?

A The only explanation I can give you is that whoever--Langton--was talking to up north had, did not have the C&S Bank information or had gone back to some old information that they had used--let me just go back. In December, 1985, the transfers came through very nicely to C&S, Citizens & Southern. So they had the current bank information. If you go back to the March, 1985, there was a wire transfer for that particular one that went to First Chicago. The only thing that I can come up with out of this is that somebody went back to that First Chicago information and made the transfer the same as they had at that particular time.

Q Did you discuss with Mr. Langton at the time that money had come in to Chicago for you?

A I was looking for it. I was looking for $270,000 which they insisted had been sent to us, and we couldn't find it. Finally, somebody said, check First Chicago.

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. Q Who said that?

. A That may have been, may have come out of our side, may have come out of the accounting department.

. Q You don't remember who was--

. A I don't remember specifically who came up with that. But we spent several days telling C&S that, they tell us the money has been sent, why can't you guys come up with it? That was not unusual if a transfer was coming from overseas for it to get lost in C&S for three or four days and us to find out well after the fact.

. Q Did you, once the money was found, did you discuss with Mr. Langton the fact that you determined the money had come in through Chicago?

. A I told them that is where it was, and he moved it to C&S.

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. Q Did he say anything in response?

. A I think his response was probably something like, ''Good.'' Nobody likes to have $270,000 loss in the banking system.

. Q So to return, other than that particular Chicago transfer, all overseas wire transfers to Southern Air Transport during your time here have come in through Citizens and Southern?

. A My loan agreement with C&S Bank stipulates that all incoming funds will go through C&S.

. Q And conversely, if one knows from C&S all the wire transfers that have come in for Southern Air Transport, one has a compete list of all the wire transfers over all that have come into Southern Air Transport?

. A That is correct.

. Q Including ad hoc charters--your answer is, yes?

. A Yes.

. Q And since you have said that there was only one time you maintained an overseas account for a customer, that ACE was the single time you maintained an overseas account, then there is, apart from whatever wire transfer went into the ACE account, there would be no other wire transfers made into the account of a customer in the instance inasmuch as

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you were maintaining bank accounts for customers?

A That is correct.

Q Without going over the wire transfers one by one, they may be uniform in certain respects in the uniformities that you know about; some of these wire transfers clearly came from Credit Suisse.

Do you have knowledge whether all of them came from Credit Suisse?

A Into the C&S account?

Q Yes.

A No, some of them came from Banco de Iberoamerica.

Q Did they all come either from Credit Suisse or Banco de Iberoamerica?

A There are certain transfers that I can't answer that on. For instance, the last exhibit we were looking at has one that came through Republic Bank in New York City, and evidently C&S could not tell the origin of that, and I don't know the origin of it. There is not enough information there to tell it.

Q There was another instance in which a wire transfer came into City Bank; is that it?

A Came through City Bank.

Q Through City Bank.

A Distinguish between through and in. On foreign transfers they generally will come through one of the bigger

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banks.

Q In the case of the City Bank transfer, you are saying because it came through City Bank, you knew where it had originated?

A No, I am not saying that.

Q Okay.

A Where is the City Bank transfer?

Here. It is here. 1792 is that one.

Q Looking at Page 1792, which is the exhibit we are currently examining, which has not yet been numbered, as far as the money received by Citizens and Southern, what was the bank that was wiring this to Citizens and Southern?

A It doesn't say. It was--the only thing that you can tell from this is that it was originated by Hide Park Square Corporation, and it came through City Bank New York City. Whether City bank was the originator or whether it came from some place else, you can't tell from this, nor did Citizens and Southern have that information.

Q Looking at 1786--

A 1786?

Q 1786. You just made reference to a transfer from Republican Bank. Is this the transfer you were referring to?

A This is the one, and what I am saying is that I don't really know the origin of this. It could have come

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through Republic Bank. It could have been originated by Republic Bank. Citizens and Southern does not have that information.

. Q Do you recall off hand, apart from the Republic Bank--let me rephrase that.

. Most of the wire transfers appear to have come from Credit Suisse; is that correct?

. A That is correct.

. Q One came from Republic that you have looked at and one came from City Bank that we have looked at. Do you know of any others that came other than from Credit Suisse, and those two that we have just or that you have just named?

. By transfers I don't just mean the ones on documents 1785 to 1795. I mean all wire transfers received in your Citizens and Southern account.

. A All transfers or all transfers related to this?

. Q Well, I will go back and explain why I asked the question. You previously stated that--scratch that.

. You previously stated that all the wire transfers received by Southern Air Transport come from the C&S Bank with the exception of the one Chicago oddity, leaving the Chicago one out of the picture, though, that you received few, if any, overseas wire transfers from any customers, except possibly some from ad hoc charters.

. A Right.

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Q Okay.

A And IAS.

Q And IAS.

By the way, where does IAS wire from?

A They wire--this is a good example--they wire out of City Bank, London and the advice, when it comes in, will just say through City Bank New York City.

Q All right.

Then leaving aside the ad hoc charters, all the other overseas wire transfers that you receive, you receive at C&S, and you received them related to the Iran-contra matter.

A I can't think of an exception to that.

Q All right.

A I have not gone back and looked at every single wire transfer.

Q And of the wire transfers received related to the Iran-contra matter, you can't recall any except the ones that came from Credit Suisse, Republic, and City Bank, and Banco de Iberoamerica.

A Again, I have not gone back and looked at them individually, but that seems to be my recollection.

Q Thank you.

MR. TIEFER: Let's mark this as Exhibit 15, pages 1785 through 1795.

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[The following document was marked as Exhibit RHM-15 for identification:]

********** INSERT 4-1 *********/

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BY MR. TIEFER:

Q Now, I show you documents numbered D-964 through 980.

A Okay.

Q And I ask you if you can identify that.

A Yes, I can.

Q What are they?

A These are telexes that I originated to Banco de Iberoamerica, to originate outgoing wires for various aircraft purchases or services.

Q And these all went out through telex here at Southern Air Transport?

A Yes. That is identified by the Southern Air Miami at the top of each of them.

Q You mentioned previously that there was an authorization code or some such matter in such telexes.

A Yes.

Q Can you show me on 964 to what you were referring?

A It says almost at the bottom the authorization code is 12913.

Q On the following page, 965, is there a similar notation?

A Authorization code is 18725.

Q These are different numbers.

A Yes.

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. Q Can you explain why the authorization code is different in different telexes?

. A Are you familiar with the banking laws of Panama?

. Q Why don't you answer the question, and if I don't understand your answer, I will ask another question.

. A All right. The banking laws of Panama provide for a unique coding system for each client that is based on Number 1, a personal identification number; a designation for the day of the week, a unique number that you, as the customer assign; a designation for the currency involved--I am trying to think of the variables on that--a designation for the month--

. Q Rather than forcing you to recall what is obviously an intricate calculation, did you tell people in sending this telex what authorization code to put down?

. A Yes.

. Q And what did you use as a basis for that?

. A I would go through this--

. Q Did you have written instructions that you went through?

. A There is a written form that was filled out at the time the bank account was set up.

. That assigned various numbers to parts of this. Parts of it are fixed such as the dollar amount in thousandths, the month of the year and so forth, and you

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told those up.

Q I understand. Do you still have the written sheet that you are referring to?

A Yes, I do.

Q Page 980, that is not signed R.H. Mason. Would you explain what page 980 is?

A 980 is an incoming telex in response to a request or an inquiry that we sent to the bank inquiring about an outgoing wire transfer that had not been received and wanting some information to allow us to track it through the system.

Q And what do you understand the reply to signify?

A Well, what they are saying is that on the 8th day of July I had sent them a telex inquiring about a request for payment for 10,963.60, and they are telling me that they had sent this pay order on June 27, 1986 through Irving Trust Company in New York City, and that was the reference number.

Q Now, do you know who you--go ahead.

A If you go back to 978, you will find the request.

Q Do you have an understanding as to if you requested them to send money to the Banc Nacionale of Canada that it went through Irving Trust Company in New York?

A Because that is who their correspondent was. That was the way they routed their funds.

. Q Do you mean the correspondent of Banco Iberoamerica?

. A Yes. They had a relationship with Irving Trust. Again that is why you are seeing these other names on the incoming wire transfers, because I venture to say that when they got their advice from Banc Nacionale of Canada would see that--wouldn't see it came from Banco Iberoamerica. They would see it came from Irving Trust.

. Q Do you know for a fact that all wire transfers that went out at your instructions from Banco Iberoamerica went through Irving Trust?

. A I don't know that for a fact.

. Q Do you know--

. A I would have no way of knowing that unless there was a problem, and I needed to trace it.

. MR. TIEFER: Let's mark as Exhibit 16, documents 964 through 980.

. [The following document was marked as Exhibit RNM-16 for identification:]

xxxxxxxxxx INSERT 4-2 xxxxxxxxx/

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BY MR. TIEFER:

Q I show you a series of not sequentially numbered documents that are numbers 493, 531, 458, 557, 595, 602, 622, 638, and 644. I could ask you straight out whether you recognize all these pages as having something in common, or I could refresh your recollection by showing the document production log, which shows all numbers from 476 through 650 as ACE expense sheets.

In any event, I will ask you in that case, can you identify 493 through 644, the particular numbers listed as being a particular type of document.

A These are all documents either invoices or--I think they are all invoices or requests that came into Southern Air that were passed through to ACE. They were expenses that we paid on behalf of ACE.

Q Looking at the top one, Number 493, can you explain the significance of 493?

A 493 appears to be a check in the amount of $7,500 that was issued to William Cooper for an expense advance and by an expense advance my recollection of it was that he needed money for the operation in [redacted] and this is how it was provided to him.

Q What is the--did he receive cash?

A He received the check which he took to the bank and exchanged for cash.

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. Q What bank?

. A My recollection--I would imagine Southeast because that is what it was written on.

. Q Did Southern Air Transport itself disburse cash to people involved in the Central American operation?

. A On occasion we would do that.

. Q What documentation did you create when you disbursed cash to such people?

. A There would be a cash receipt acknowledgement, if you would.

. MR. TIEFER: Let's go off the record.

. [Off the record discussion.]

. BY MR. TIEFER:

. Q You were saying when cash was disbursed you produced a particular document.

. A That small cash receipts form that the person would sign for. For the most part cash was not disbursed to these people without my getting a pre-approval bill to do that.

. Q Did you retain such cash receipt forms in your records?

. A There should be.

. Q To your knowledge have they been pulled and produced?

. A I am not sure that they have been pulled and produced as part of the--they would be back up to the journal entries that you have. But I am not sure that you have that back up. I don't know what I sent David at this point in time.

Q And by the journal entries you refer to the sheets which we went over that were shrunk in size?

A No, the computer sheets, okay? If they went--they wouldn't have gone through the normal channels. They would have gone in by journal entry. I don't recall what I sent you to back up the journal entries, whether I just sent the journal entries per se or whether I sent the backup, too.

Q So some backup for the journal entries has not been pulled.

A I am not saying that. I don't recall what I sent David.

Q Some backup for the journal entries may have not been pulled.

A May have not been.

Q And if one were seeking the backup, if one were seeking all disbursements related to the Central American operation, one would pull the backup for all journal entries--

A For all journal entries on the big sheet, because that is what was actually charged through to ACE.

Q Do you have any idea as to why in some instances men in the Central American operation would have been paid cash directly by Southern Air Transport and in some instances they would have been given a check drawn on Southern East First National to to and cash there, or which they could go and cash there?

A It most likely had to do with the amount of cash we had on hand here.

Q Do you want to explain that further?

A Well, we don't keep in our petty cash--funds don't keep large sums of cash on hand.

Q How much do you keep?

A Again, depending upon the activity, it could be anywhere from 5 to--there have been times with certain flights, ad hoc flights that we were undertaking where we might need to buy fuel and so forth for a 707 that would require 30,000, so we might go up to that, but it would go out right away. But normally it is less than $10,000 that we keep on hand.

MR. TIEFER: Let's mark this as the next exhibit.

[The following document was marked as Exhibit RHM-17 for identification:]

xxxxxxxxxx INSERT 4-3 xxxxxxxxx

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BY MR. TIEFER:

Q I wanted to ask one question relating to an earlier line. You referred to a document that is produced on a daily basis, used in the daily meetings that shows each flight of each of the planes in the day before. Does that sheet show anything about the cargos that have been on the planes?

A No.

Q And is the cargo ever mentioned in the daily meetings such as whether it was hazardous or not?

A I would have to say, no, to that. It is just not--that is not the purpose of the meeting. It is an operational meeting. Did we meet our time requirements--so on, and so forth.

Q There is some remaining documentation to go through, but it may be most useful to turn now to a more chronological account and bring the remaining documentation in as it relates to that.

Is there a place--you have several times attempted to begin telling how you first became involved in this, and it is possible if I simply asked you to start the account that you would prefer to do it that way.

A Okay.

My first involvement came about in early November of 1985 when I was asked by Bill Langton to go to Panama to

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set up a corporation, open a bank account.

. Q Do you recall where this conversation took place?

. A Took place in his office. I think I had just returned from another trip.

. Q You had just returned?

. A Yes. I had been--I don't recall where I was. I think it was up in New York or something like that.

. Q Was anyone else present?

. A At the time he talked to me?

. Q Yes.

. A No.

. Q Did he use any pieces of paper during this discussion, or was it purely oral?

. A There was a--I think, a handwritten note giving me a company to contact and a basic format of the message that I needed to send to this company.

. Q Did you keep that note?

. A I don't think I have that note. If it didn't come out in the ACE material I don't think it is there.

. Q As fully as you can, can you recite what it is that Mr. Langton said to you in that conversation?

. A Basically that I was to contact this company; that this was the format of the message that I would send, was to send to him; that I was to go down there and buy a company that had been in existence six or eight months, but had had

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no activity; and that I was to set up a bank account for this particular company; that Dick Gadd would call me with some further instructions, which he did--Dick and another person.

. Q Let's not rush into this.

. A Okay.

. Q You previously mentioned that your predecessor had spoken to you about Dick Gadd.

. A Yes.

. Q And Mr. Langton previously had spoken to you about Dick Gadd.

. A No, I can't really--not in any detail. I know that we had done some work with Dick, but I can't--as Southern Air.

. Q Did you get that from conversations or with Mr. Langton?

. A I knew it from some billings that we had originated within the department that we had done a couple things with East.

. Q Did you know at that time of any other company related to Dick Gadd that Southern Air Transport had done work for?

. A There was a predecessor company to East, and I can't tell you the name of it.

. Q Does the name Sumairco--

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. A Sumairco is, I guess, what it was.

. Q What did you know about Sumairco?

. A Really nothing other than it was a predecessor to East.

. Q And what did you know about East?

. A Not a whole lot.

. Q What did you know about Dick Gadd?

. A And not a whole lot about Dick Gadd.

. Q When Bill Langton said to you that you would be doing this for Dick Gadd--

. A I don't think it was for Dick Gadd. It was with Dick Gadd.

. Q With Dick Gadd. Did he explain why Dick Gadd's name was being mentioned since from what you said previously you and Mr. Langton had not had Dick Gadd's name between the two of you.

. A No, he didn't.

. Q Did he appear to assume that you would know who Dick Gadd was without being told?

. A Yes, and Bill and I may have had a conversation on who Dick was. I honestly don't remember.

. Q Well, from whatever source as of the date of that conversation with Bill Langton, what was your understanding about Dick Gadd?

. A My understanding was that Dick Gadd was a contact in Washington who was working for whoever it may be up there who needed some help doing something.

Q And you earlier said you had some understanding about Dick Gadd from what your predecessor said.

A My predecessor made an off-the-wall comment which I passed on to you.

Q Was that part of your understanding of who Dick Gadd was?

A I think I had a mental image that that may be where this was coming from.

Q And what was that mental image that you had?

A That this was coming as part of an, if you will, a CIA or government-related request.

Q Was there anything in your conversation with Bill Langton that either confirmed or refuted the idea that this was CIA or government-related?

A Absolutely nothing.

My understanding at the time was that, you know, I was to go down and do this and we were doing it as an accommodation to Dick.

Q Did he say that?

A No, I don't know that he really said it, but that was kind of the implication.

Q But he didn't say that?

A No.

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. Q Now, you had never set up a company under the United States before, had you?

. A No.

. Q Did it seem to you at all unusual to have you do this?

. A Not particularly.

. Q Why did it not seem unusual?

. A Why? I guess I would have to turn it around and say why would it be unusual? I don't know.

. Q Then I will put it differently. It seems to you ordinary in your line of work to set up companies under the United States?

. A It would not--when you are with an airline you tend to think in global terms. Let me back up and say when I was with Evergreen, and we ran scheduled passenger service into the Caribbean, I worked very closely with the general sales agency in the Dominican Republic and set up some things down there.

. It was not, in my mind, an unusual request to go down and do something like this.

. Q Did you set up companies under the United States while you were at Evergreen?

.- A No.

[redacted]

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[redacted]

. Q Did you relate to anybody else the conversation that you had with Bill Langton?

. A I don't believe I did.

. Q Had he told you not to?

. A No.

. Q Was there a particular reason that you did not relate it to anyone?

. A I didn't see any reason to. There was another person that accompanied me when I went, a fellow by the name of Tom Hazlett who is fluent in Spanish.

. Q How was it arranged for Tom Hazlett to go with you?

. A Bill said Tom would go with me.

. Q Do you remember anything else he said in this conversation?

. A I really don't, no, other than that Dick would call me and give me more particulars on it.

. Q He didn't discuss with you how much money might be involved.

. A No.

. Q How long the trip might be?

. A That was pretty much left to me. What does it take to set up a bank account? At least a dollar, but probably a little bit more.

. Q Was Mr. Langton's wife, who was the attorney, a corporate officer at that time?

. A Mr. Langton's wife is not an attorney. Mr. Bastian's wife is an attorney.

. Q Excuse me, I stand corrected. Mr. Bastian's wife was an attorney.

. A Yes.

. Q You didn't discuss this matter with her?

. A No.

. Q Did it occur to you that there might be any legal ramifications of setting up an off-shore company and an off-shore bank account?

. A Honestly, no, it didn't.

. Q How long went by before Dick Gadd called you?

. A It seems to me that it took--the information that we had to contact the people I was supposed to contact down there was inaccurate, and it took a couple of days to make that contact.

. Q Were you supposed to wait until Dick Gadd called before you made that contact?

. A No, no, no. We went ahead and made the contact and once we made the contact, then they were expecting us. I think Dick called me the night before I left.

. Q I show you documents 1104 and 1105, and I ask you if you can explain them going along with the account you have just been giving.

. A Okay, 1104 is the return telex that we received when--to our telex to the company down there saying we would like to come down and meet with you and obtain a company.

1105 is my return telex saying that we would be there on November 8, and planned to meet with them that day.

. Q Using these telexes to refresh your recollection as much as possible, what do you reconstruct was the sequence? You were given a piece of paper by Bill Langton. You talked to Tom Hazlett before the telexes began going--correct.

. A No, I don't think I really did. I think we tried to make contact with the company.

. Q You mean you tried to make contact.

. A We tried to find a telex number for this particular company so we could originate a telex indicating an interest in going down and talking with them.

. Q Was somebody helping you find that number?

. A I think Bob Portion over in dispatch, who is the director of operations, was giving me a hand trying to look up through the telex directories to see if we could find one.

. Q Then once you had found a telex number then you sent a telex?

. A We sent the telex.

. Q Now, the telex makes a reference to a Marvin Evans.

. A This is the name, the reference name that I was instructed to use in the telex that I sent down there.

. Q Instructed meaning, was it on the sheet?

. A It was on the sheet that bill had given me. And basically it was that we would be referred to you by an acquaintance of Marvin Evans.

. Q Did you have any understanding of why the name, Marvin Evans, was being used?

. A No.

. Q Did you have any idea whether it was a real name or a fictitious name?

. A I had no idea.

. Q Did you ever use that name again?

. A No.

. Q In conversation with anybody?

. A No.

. Q So to this day, do you know whether there is or is not a Marvin Evans?

. A I have no idea whether there is a Marvin Evans.

. Q Having received a telex, you then sent another telex?

A Yes, which is 1105.

Q Had you talked to Dick Gadd by the time you sent the second telex?

A No.

Q Had you talked to Tom Hazlett?

A At this point in time I probably had, at least to tell him that--i think at that time he was aware of the fact that he was going with me.

Q Who made the arrangements for flying down there and for staying somewhere down there in Panama?

A I think we got the tickets through our interline department, and I think we had crew scheduling book the rooms at the Marriott Caesar Park because we were using that for crews.

Q Would it have been mentioned at operations meetings at the time that you were going to be down in Panama?

A I doubt it.

Q Was it not customary to mention where senior management was going to be?

A Not necessarily.

Q Why would it not be mentioned in operations meetings?

A The other thing I will say is that at this point in time I was not senior management.

. Q You were comptroller at the time.

. A I was comptroller at the time.

. Q You attended operations meetings?

. A Yes.

. Q But it was not considered vital to know where you were?

. A No.

. Q After you--you believe that your call from Dick Gadd came after you sent the November 6 telex?

. A Yes. We left--flights to Panama were strange in that I think we left in the afternoon, and you arrived in the evening. You couldn't go down and back in the same day. You could get out of Miami in the afternoon, and you could come back in the morning. You couldn't get out in the morning and back in the same afternoon. So it seems to me what I did was we left in the afternoon, on the afternoon of the 7th and on the evening of the 6th I had a call from Dick Gadd and whoever was with him, and I can't tell you who it was at this particular point in time.

. But I received a call at home from him telling me basically what the requirements were.

. Q Before we go into that, perhaps you have said, it would not have come up in operations meetings. Would you have told anyone in your department that you were going to Panama?

. A I may have. Certainly there was no mandate or directive from Bill not to tell people where I was going.

. Q Would you have told family or friends you were going?

. A My wife knew where I was. That is for certain. I may have or may not have told Daisey or Jose that that is where I was going. Certainly, they would have known when I came back because I would have filed an expense report.

. Q All right. So Dick Gadd called you at home and you think there was somebody else with him, and I don't have any recollection of whether they mentioned their name.

. I don't know who it was. I know it was nothing I made a note of or anything like that.

. Q This other person was on the line as well or in the background?

. A No, no, it was a three-way conversation.

. Q Even if you didn't know at the time, was it something you may have heard of later on? Do you believe at any point you later on dealt with this other person?

. A To the best of my knowledge, no.

. Q Do you know how Dick Gadd got your home phone number?

. A I am sure that Bill gave it to him. In fact, I can tell you I went in and when Bill had set this up Bill said, ''Dick, would [redacted] give you some further instructions on it.'' and it was getting late in the afternoon, and I was ready to go home, and I went in and said to Bill, ''I haven't heard anything from Gadd yet.''

. Q This is the second meeting with him.

. A Yes.

. Q No one else was present at that meeting.

. A Right. ''What is the story,'' and I think he called him, and he said I am ready to go, and he said I will have to call him later today, and he gave him my home phone number. I think it was 10:00 or 10:30 or so that it was when he called me at home.

. Q Bill Langton said, ''I have to call Dick Gadd?''

. A Bill called Dick Gadd and said--Mason--was ready to go, you know, ''Are you ready to talk to him?''

. Q How do you know that phone call took place?

. A I was there when he did it.

. Q It was made from the office?

. A It was made from Bill's office, and Dick said, ''I will have to call him later on.''

. Q At that point you heard your home phone number being given?

. A I gave him my home phone number.

.- Q When Bill Langton talked on the phone to Dick Gadd, how did he address him? Did he use, ''Dick,'' or did he use a title, or did he use an Army term?

. A I think he probably said, ''Hey, Dick.'' That is the usual method of addressing Dick.

. Q This was the first time you had ever witnessed someone address Dick Gadd, or not? You had not yet ever spoken to him; is that correct?

. A To the best of my knowledge I had not spoken to him.

. Q You had not been present during any previous conversations someone else had had with him?

. A No.

. Q Before we go anywhere then, let's mark 1104 and 1108 as Exhibit 18.

. [The following document was marked as Exhibit RRM-18 for identification:]

********** INSERT 4-4 *********/

BY MR. TIEFER:

Q When Gadd called you, called you at home, what did he say?

A Basically, the basic gist of the conversation was that, somewhat as Bill related to me, they wanted a company bought off the shelf that had been in existence for six to eight months; no prior activity; that the people at Intertrust would lead me through it, not to be concerned because I had not done it before; that we needed to set up a bank account; and basically just follow what--follow along with them as they laid out the steps.

Q Did anything occur in that conversation with Dick Gadd to either confirm or refute your previous impression that he was with the CIA or similar agency?

A I don't really think so.

Q After that conversation did anything else of significance happen before you arrived in Panama?

A No.

Q You went down with Tom Hazlett?

A Right.

Q The two of you went to where?

A We went to the hotel, got up the next morning, went to the offices of Intertrust and met with Mrs. Dee Rodriguez.

Q Had you heard the name Quigano in connection with this at that point?

A No.

Q Had you been given Ms. Rodriguez' name--do you know whether she is a Miss or Mrs.?

A I don't know.

Q Had you been given Ms. Rodriguez' name?

A Yes, that was the name I was given to contact at Intertrust.

Q When you and Tom Hazlett met her was the conversation in English or Spanish?

A English from my side and Spanish from Thomas' side.

Q What languages did Mrs. Rodriguez speak?

A She spoke both. But I think that here--I recognize enough Spanish so that it was informal--banter back and forth between the two of them.

Q And what did you say on your side, and what did she say on her side?

A Basically I said, I guess, one of the things that Dick said I could say, and because I had not done it before, it is the tact I took. I represent a group of investors who want to do some moving, and I need a company that meets these requirements and what do you have?

Q Dick Gadd had said that to you in the phone conversation?

A Yes.

. Q What you have just related.

. A What I just relayed to you. I am not sure that was necessary.

. Q Was it a true statement? Did you represent such a group of investors?

. A No, I didn't.

. Q Why did you believe that you should make a statement that was not true about who you represented? I am not criticizing you, but--

. A Well, I--

. Q I am just asking.

. A I guess here I am trying to buy a company, and I need a reason for buying it, and maybe it was to give a little credence to it. I don't know. I don't have a good answer for that.

. Q Well, I want to know what your answer is whether it is or not. Why did you feel you had to make a statement that was not true?

. A Basically--

. Q Why did you not, for example, tell her the true reasons you were down there, what you had been told to do, for example, as an accommodation to a customer of Southern Air Transport for buying a company off the shelf.

. A Yes, I guess I could have.

. Q You don't know?

A No.

Q You don't see that you could have said you were doing it as an accommodation for a customer of Southern Air Transport to buy a company shelf?

A I might have been able to say that. I am not sure. I don't have a good answer for you on that one.

Q You have no idea why I didn't just say to them, ''I am here as an accommodation to a customer of Southern Air Transport?''

A If I didn't say that, it is probably because I felt I shouldn't say that.

Q Why did you think you shouldn't say that?

A Again because of the connection with Dick Gadd.

Q And what connection was that?

A Which was the company connection.

Q Okay.

A Okay.

Q If you would spell that out.

A It seemed to me that there was a need, the way this was set up, to--I don't want to say be secretive--but to hold it close, you know, it is something that I knew or Southern knows or Langton and I knew in setting this up, but we didn't need to broadcast it to the world, and we may not have been doing that in talking to him because I am convinced that Mrs. Dee Rodriguez knew from the day she got my message what we were coming down to do.

Q But in other words you thought you should give her that particular account because you had the impression that Dick Gadd might be CIA-related?

A Well, basically, you know, they are telling me how to go about doing this. I have never done it before.

Q ''They,'' meaning?

A Dick and whoever was on the phone, and this is kind of what they threw out. I can't say I said it with a whole lot of credibility.

Q I don't want to put words in your mouth, but I believe, and I will repeat my question, among the reasons that you thought you should give was this account that you were there buying a company off the shelf on behalf of a group of investors, even though it was not true, and it was because you thought that Dick Gadd might be related to the CIA?

A Well, maybe I was there to buy it for a group of investors. I don't know.

Q Well, I asked the question, and I would appreciate a yes or no answer. Was one of the reasons that you gave that account that you thought Dick Gadd might be CIA-related?

A One of the reasons I gave that account was in talking with Dick the night before, you know, this was the way he said to go about it. ''Give them that reason.'' ''Okay. I will give them that reason.''

Q And it entered into this picture that you thought he might be CIA-related?

A I am sure it did.

Q Okay. What did Ms. Rodriguez do after you said to her what you were there to do?

A She whipped out a sheet of paper that had companies that were available that had been set up in various months, and she said, ''Look through it and pick one that you like.''

Q Do you recall any of the other companies on the list?

A No, I really don't.

Q How did you come to decide on the one you did?

A Just looked good. It had been in existence for about a year, had no activity. It was available. The name looked better, I guess, than so and so importing company, or XYZ enterprises.

Q And what was the name that you picked?

A Amalgamated Commercial Enterprises.

Q After you had picked--shall we refer to it as ACE?

A Yes, that's it.

Q After you picked ACE, what happened?

A She said, ''Okay, it is going to take a little

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while to get the documents prepared.'' I guess we went through a few other questions. I don't remember specifically what they were, but she was going to take a couple hours to get the documents prepared. ''Can you come back in a couple of hours.''

. Q So you--

. A So Tom and I left and prowled around for a couple hours and came back.

. Q Okay. And what happened when you came back?

. A Came back and went through the document package which you have.

. Q Starting from 1037 forward, let's break this into a number of exhibits. Why don't you peel the pages off and explain from the top what each of them means. If several pages go together, do several pages at once, but let's start with each one.

. A Yes. The top page, 1037 is a cover sheet which relates to the documents that I picked up on that particular day.

. Q Now, the top sheet is addressed to Mr. Robert M. Mason.

. A Right.

. Q And the telexes you had sent had been signed by yourself.

. A Right.

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Q So at all times--

A For all intents and purposes ACE [redacted] was me. If that is the question you are driving at.

Q That is what I am asking.

A Okay.

Q Did they hand you all these documents in a package or were they in the process of assembling them, or how did that work out?

A When I came back we went through these one by one.

Q And Ms. Rodriguez explained to you the significance of each?

A Yes.

Q Did she say the cover letter had any significance?

A Not that I recall.

Q Okay, let's turn to 1038.

DCMN STEVENS

. A Okay.

. Q You were going to say about the second sheet, 1038.

. A 1038 and 1039 are documents that came from Banco de Iberoamerica as a result of setting up the bank account.

. 1040 is the letter of introduction that was given to us to take over to the bank.

. Q 1041?

. A 1041 is an invoice for the preparation of minutes of the board.

. Q 1042?

. A 1042 was the invoice that was actually paid for the purchase of the company, the preparation of documents, and so forth on the 8th of November.

. Q How was that payment made?

. A It was made in cash.

. Q Panamanian or American?

. A They are one and the same.

. Q It was paid in American money?

. A They are one and the same. American money.

. Q It was money you had brought down from the United States?

.- A Panama uses the U.S. dollar.

. Q Was it money you had brought down from the United States?

. A It was money I had brought down from the States.

. Q How much cash had you taken?

. A I took about $7,000 down with me.

. Q Who had told you about taking cash with you?

. A I knew I had to take cash with me.

. Q How did you know that?

. A I know I had to fund a bank account. I knew that was going to take cash. My assumption was it was going to cost me money to set up the corporation although I didn't know how much.

. Q Do you frequently travel with as much as $7,000 in cash on you?

. A No.

. Q Have you ever travelled with that much cash on you?

. A Yes.

. Q When?

. A I have travelled with that much cash on me at Evergreen when I was making a circuit of UPS stations that needed supplies and I wanted to buy them on the spot to get them set up. I don't think I have, since I have been at Southern, I don't think I have ever traveled with that much cash on me.

.-- Q Do you obtain--how did you obtain the cash?

. A I drew it from the petty cash fund here.

. Q So that there would be underlying documentation there?

A Right.

Q Including ledger entries for the 7,000 or did you return some of the money when you got back?

I am going ahead of your story, but, what would be the ledger entries?

A The ledger entry would be a charge to me for $7500 that I need to account to the company for either through expense reports or return of cash.

Q And who did it ultimately get billed to?

A Ultimately it got billed back to ACE. One of the wire transfers that was made out of the ACE account was to reimburse me--or, not me, but Southern, for what I expended on that first trip.

Q Why did you use cash rather than, say, traveler's checks or a cashier's check or any other, a letter of credit or any other very negotiable instruments available?

A Depends on what is readily negotiable in Panama and it is easier to use cash. Now, you can say maybe I should have taken traveler's checks rather than cash, and that may be a valid point, to get traveler's checks I would have had to have gone to the bank and purchased them. Cash I could draw right from here. From what we have here.

Q You are saying in no other instance when you have travelled for Southern Air Transport have you drawn that much cash.

. A No. I mean, it depends on what you are setting off to do.

. Q Why don't we continue through the documents.

. A Go ahead.

. Q 1043.

. A Again, that is the bill which I think 1043 was to bill us for the acquisition of the company.

. Q And 1044?

. A Was the annual maintenance of the company.

. Q Had they told you that there would be a continuing cost for the company?

. A Yes.

. Q 1045 appears to start a document that continues for some pages. Suppose we take as one document, correct me, if I am wrong, in assuming it is one document, 1045 through 1054. Can you identify pages 1045 through 1054?

. A This is the English translation of the charter of the corporation.

. Q I see it is dated November 7, 1984.

. A That is correct.

. Q Was this a date that came up in some other context?

.- A This is the date the corporation was established.

. Q Now, if you look at page 1052 there is a listing of--under the heading of tent, that the first officers or the corporation shall be, and three names are given.

. A Yes.

. Q What do you know of the name, person who is the President?

. A That was the person that we talked to at Intertrust, Ms. ~~de~~ Dee Rodriguez.

. Q Do you know anything about the name for the second person?

. A I really don't.

. Q The last name is Soto?

. A No.

. Q What about the third person? Yadel Bloise de Quinjano?

. A No.

. Q Have you ever heard the name Kihanosins then?

. A No.

. Q Did Ms. Rodriguez give you any explanation of how these companies worked or how you operated on their behalf or you made them work or anything of the nature of how such companies work?

. A The one thing that she did which you have a copy of in here is that they issue a broad foreign power of attorney which was issued to me, which is what gave rise to the $232 and some cent check that was written on the account.

. MR. KIRSTINE: I wonder if we could take a five

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minute break so Charley Carson can ask Bob a question, then we can talk about when we are going to quit for the day.

MR. TIEFER: Okay. Sure.

[Discussion off the record.]

BY MR. TIEFER:

Q Let's look at pages 1055 and 1056, can you identify them?

A These are the stock certificates for ACE.

Q Where have these gone since you received them from Ms. Rodriguez?

A Where have they gone?

Q Yes.

A They are in a drawer in my desk.

Q Did they come from Panama back to that draw?

A Yes.

Q And they have never gone anywhere since?

A Nope.

Q You still have them?

A I still have them.

Q Did anyone ever see them?

A Bill Langton saw them and Jim Bastian saw them because they went through the package.

Q Were copies ever made of them other than the ones to be produced to investigators?

A To the best of my knowledge, no.

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. Q Document 1057.

. A That is the authorization to open the bank account with Banco de Iberoamerica and giving me signature authority.

. Q You have no knowledge of the meeting of the board of directors described in this resolution, do you?

. A No.

. Q Okay. Document 1058, begins on 1058 and continues to page 6--excuse me--1063 in the SAT numbers, a six page document.

. A Which number?

. Q 1058 through 1063.

. A Okay. This is a copy of the broad and general powers of administration that she was going to draw up for the corporation and I see there are no names on this.

. Q This has a 1983 date on it.

. A This was just a model.

. Q A model, okay.

. 1064.

. A 1064 is a follow-up letter that contained it, I think, the broad foreign power of attorney and an English translation and the invoice for doing it.

. Q Are the pages that follow this 1065 and so on, the documents that were forwarded to you under that cover letter?

A Yes, 1065 is the Spanish translation, 1071 i--1072 is the invoice which relates back to the check.

Q Let me ask if possible there was some problem in the copying of these documents. 1067, 1068 and 1069 are in Spanish. They are numbered as sequential pages. They appear to be one document.

However, 1070 is in English and it says it is page six of a document. Is it possible that some document was incompletely copied?

A It appears like something could have gotten out of order on that.

Q Why don't we pass over that rather than working on that now. I am sure clarification will be forthcoming at some point.

1071.

A Well--

Q Perhaps 1071 is part of the document we are still seeking to clarify.

1072, you previously identified as the invoice.

A Yes.

Q 1073.

A That is the transfer of the stock by one of the orfginal incorporators.

Q 1074 through 1078 appears to be a Spanish language document dating to November 7, 1984.

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A This is the Spanish translation of one that we looked at earlier.

Q 1079 is a cashier's check.

A That is really out of sequence in this whole package.

Q Why don't we take 1079 out and put it aside for the moment and do something with it later.

1080 and 1080.

A They appear to be copies of stuff we have seen earlier.

Q 1082.

A 1082 is the English translation of the power of attorney to act. That goes through 1088, and it looks like 1089 becomes part of that, also.

Q The rest of the documents relate to the Banco de Iberoamerica account opening.

A Yes.

Q Did you immediately go to the Banco Iberoamerica?

A Yes, we had about 10 prints to get over there before they closed. She had called ahead and made arrangements for them to wait for us.

Q What happened there?

A We presented our documents and told them we wanted to set up an account.

1090 shows the initial deposit that was put into

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that account.

Q And the $4,000 deposited was cash?

A That is correct.

Q 1091 is a form used in connection with the establishment of the account?

A It has to do with special instructions and it looks like--doesn't look like we used it.

1092 is the letter of introduction which we have seen before.

1093 is one you have seen before and 1094 you have seen before.

Q I am not sure about 1093.

A Yes, you have.

Q I will take your word for it, but if you would identify again what 1093 is.

A 1093 is the copy of the--I think the signature card which--I think these were prepared at Intertrust before we went over because I needed to sign. That relates back to, it is the same as 1039.

Q 1095 looks like another copy of--no, I won't say.

A This is the issuing of the stock certificates.

Q 1096 you previously--excuse me.

A 1096 is the first telex I sent.

Q Okay.

If it is agreeable, why don't we include 1096 as part of the previous exhibit, which were the previous two telexes in sequence. So 1096 becomes part of the previous exhibit.

. 1097 we have seen.

. A You have seen that before. 1098 is the resignation.

. Q 99 and 1100 appear to be the same format. 1101?

. A It is the transfer of their interest in the corporation.

. Q Okay.

. A 1102 you have seen before.

. 1103 is the same as 1101, just a different person. 1106 you have seen before.

. Q I believe that is true of--

. A 1107 and 1108.

. Q All right.

. A 1109, 1110.

. Q That completes the documents in sequence.

. Now, did anything--did you receive any instructions while you were at Banco de Iberoamerica of, for example, how to wire money in and out, the code and so forth?

. A How to wire money out?

. Q Who gave you these instructions?

. A There is a printed form that they give you and, as I told you earlier, there are, I think, three variables to which you assign numbers. You assign numbers to the day of the week, you assign numbers to the currency, and we have a personal identification number all of which get rolled together with the month, the date of the month, and the amount of the transfer in thousands to make up the authorization number.

. Q And did anything else happen at the bank?

. A That was really about it.

. Q Did you communicate back to the United States that you had done anything or not?

. A No.

. Q Did you just return?

. A Let's see. I am not sure whether we had to stay over a second night or whether we got out the night of the seventh. It seems to me we had, because we were behind the flights. The flights left in the morning coming north, we waited until we came back on the 9th.

. Q All right. I think on your arrival back in the United States--that is a good place to stop. We will mark these documents starting with 1037, as Exhibit RHM-19.

. [The following document was marked as Exhibit RHM-19 for identification:]

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. ********** INSERT 5-1 *********/

MR. TIEFER: The deposition is adjourned until tomorrow morning at a time to be discussed between myself and your side.

[Whereupon, at 6:40 p.m. the deposition was recessed, to reconvene at a time to be determined.]

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INDEX TO MASON DEPOSITION

1-6	Mason's background (including Evergreen Co., [redacted] [redacted] with Langton).
6-16	SAT's Board of Directors, including Williams, [redacted] [redacted]
16-20	Mason and SAT's Chairman, James Basti~~o~~an; they talked about contra resupply "weekly".
20-22	Mason's predecessor, Tom Crummie, told him Dick Gadd was CIA.
22-24	Mason and Langton.
24-29	Other SAT Management. Basti~~o~~an's wife, their lawyer; Daphne Bentley, Langton's secretary; VP Mullegan; VP Corson; VP Korth;
30-42	Mason's own department, Finance. Their annual reports and Arthur Anderson. SAT has a daily morning "operations meeting", at which some Iran and contra~~s~~ matters came up.
43-54	VP Corson's administrative department, which handles government contracts, charters, SAT's personnel, data processing, travel for SAT personnel in Central America. Daisy Suarez = SAT's accountant for 20 years. Mason or Korson handle aircraft acquisition, insurance, bank relations. C&S in Atlanta has a big loan to them.
55-63	SAT communications - letters, telexes, telephone, Langton's scrambler.
64-71	Ledgers and journal entries. All "ACE" were pulled.
71-74	Banco Iberoamerica recap.
75-86	14202 ledger, of Daisy Suarez. Invoices, approved, go to accounting for "pass-thru" (of ACE), receive account numbers, and are entered into computer. They are posted to general ledgers and a check is cut. Ledger sheets prepared after books closed for the month.
87-91	"Distribution" of amounts among ACE and others.
91-98	ACE recap, from wire transfers, and cash receipt forms.
99 101-1	The split wire: $242,000 goes to flight revenue and to pass-through account.

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99-103 Ledgers on in-coming amounts are based on cash receipts.

107-111 Invoices to EAST went directly and were paid by check. Mason often did not know who was behind.

RPTS BOYUM

DCMN DANIELS

COPY NO. 1 OF 2 COPIES

DEPOSITION OF ROBERT H. MASON

(Continued)

Tuesday, February 3, 1987

House of Representatives,
Select Committee to Investigate
Covert Arms Transactions with
Iran,
Washington, D.C.

The select committee met, pursuant to call, at 9:00 a.m., at Headquarters, Southern Air Transport, Vanadades Building, 6th Floor, Miami International Airport, Miami, Florida, Charles Tiefer, Special Deputy Chief Counsel to the Select Committee presiding.

4295

Partially Declassified/Released on JAN 21 1988
under provisions of E.O. 12356
by D. Sirko, National Security Council

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Whereupon, ROBERT F. MASON, having previously been sworn, was called as a witness and resumed testifying as follows:

MR. TIEFER: This is the resumption of the deposition that was adjourned yesterday of Robert Mason, pursuant to House Resolution 12, 100th Congress, first session.

FURTHER EXAMINATION

BY MR. TIEFER:

Q Mr. Mason, you recall you were testifying under oath yesterday.

A Yes.

Q You understand that testimony under oath means that you are bound under penalty of perjury to speak the truth.

A I understand that.

Q Since we adjourned yesterday, have you spoken to anyone about the deposition except for David Kirstein or your family?

A Just a quick comment to Bill Langton which was how did it go, and nothing about the particulars that we talked about.

Q He said how did it go?

A Yes.

Q And did he say anything else?

A No.

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under provisions of E.O. 12356
by D. Sirko, National Security Council

. Q What did you say?

. A I said it went fairly well. I said I kept my cool. I didn't get upset with him although there were times when I felt like it. That is basically the gist of it. We did not discuss any of the details.

. Q And that was the only person you spoke with about it?

. A Yes.

. Q I am going to go through a list of people with you and ask you whether you know any of them, or have ever talked to any of them and you could answer yes from the press, but otherwise not, or not at all, or however you wish to answer.

. A Okay.

. Q Rafael Quintero.

. A No.

. Q Meaning you don't know of him, you have never spoken to him?

. A Correct.

. Q Ramon Medina.

. A No.

. Q Louis Posada Correlles.

. A No.

. Q Max Gomez.

. A No.

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Q Felix Rodriguez.

A No.

Q Edward de Garay?

A No.

Q You have never--you have seen the name Edward de Garay?

A I have seen the name. I have never spoken to him.

Q In what context have you seen the name?

A I have seen the name in the newspaper--actually, I ought to back up and tell you that some of these others you mentioned I have seen. I recognize from seeing them in the newspaper.

Q I won't test you on who you remember from the newspaper. I understand that answer.

A de Garay I recognize from the newspaper and also from having originated the wire transfer.

Q Other than that wire transfer, you have never seen his name?

A No.

Q Lake Resources, Incorporated.

A No.

Q Corporate Air Services, Incorporated.

A I recognize that name from the newspapers and from having made wire transfers to that particular account.

Q Have you ever spoken to Edward de Garay?

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. A To the best of my knowledge, no.

. Q Airmach, Inc.

. A Airmach, Inc. I have heard of and Airmach was the company associated with East, I think, that worked the know-how flights to my understanding.

. Q Stanford Technology Trading, Inc.

. A Yes, from the newspapers and from having called Dick Gadd at that phone number on one occasion.

. Q When was the occasion you called him there?

. A I was returning one of his phone calls and they referred me to that particular firm and number. I honestly don't remember when that took place.

. Q When you spoke to Mr.--to Dick Gadd, where did you usually call him if you called him somewhere?

. A Generally at his office.

. Q And how many times did that happen roughly? Many, few?

. A Many and few are relative terms.

. Q Ten, a hundred?

. A It was more than 10, but certainly much less than 100. -

. Q Albert Hakim.

. A I recognize that name from the press.

. Q Otherwise than the press?

. A No.

Q Richard Secord.

A I recognize that name from the press, and--

Q To your knowledge, you have never spoken to him?

A To my knowledge, I have never spoken to him.

Q You have never seen his name on documents that you have dealt with?

A No.

Q Robert Dutton.

A I recognize the name. I have spoken to Bob on a couple of occasions.

Q Where?

A In my office, on one occasion when he stopped by to pick up some cash as he was heading for Central America. I think if there was--I may have met him one other time when he was through here. I don't recall. I never had occasion to call him.

Q You think that is the only time you recall talking to him?

A It is the only time I recall talking to him face to face and I never recall talking to him over the telephone. There was not some reason that I would regularly call him.

Q Did you see his name on any documents?

A No, not that I can recall.

Q When he came by for cash, how did you know that he was an appropriate person to give cash to?

. A I knew, number one, that he was coming because Bill had told me he was. I did recognize the name because I had heard it in conversations with Bill.

. Q So you had heard his name?

. A I had heard his name.

. Q And what had Bill told you about him? By Bill, you mean William Langton?

. A Bill Langton, yes.

. I don't remember specifically what Bill might have said, other than he appeared to be the person that was trying to kind of coordinate the Central American activity after Dick Gadd looked like he had slipped out of the picture.

. Q Richard Secord's name didn't come up in this context?

. A No, not at all.

. Q And did you have any reason to believe other than that Robert Dutton was the man coordinating the Central American operation? Do you have any reason to believe there was someone above him?

. A Obviously there had to be.

. Q Did you have any concept of who that might be?

. A No. Again, you know, my impression was that this was being done at the request of the government and there obviously had to be somebody above him. I can't imagine--I am not going to make that statement because it is a supposition on my part. I am not answering your question.

. Q I am asking your impression at the time, what was in your head at the time.

. A I can't imagine a retired--I think he is a general -- who has spent that much time in the military going off and doing this on his own without having somebody with some amount of authority giving direction to him.

. Q I understand.

. Yesterday when we spoke about Dick Gadd and you recited what your predecessor had told you, your impression was that by Gadd being government connected, you mean you meant connected to the CIA? Is that also the impression you had in that time about Bob Dutton?

. A I think by that time my impressions had changed maybe from a CIA operation to more of a general--I don't quite know how to phrase this--I still believe that this operation was being done at the bequest of the government, but perhaps not the CIA, perhaps it was coming more out of the White House or what have you.

. Q Did the--go ahead.

. A No. That is it.

. Q I need to place in time, did the time when your impression that Gadd was coordinating it changed to your impression that Dutton was coordinating it? Was that June

1986 or before or after?

. A It was--if you look at the ACE transfers, there was a marked difference in what happened in that account at the end of June and that is kind of when I recall the switchover taking place.

. Q And is that when--there was a change in your mind from it being perhaps CIA related to being government-related, but not necessarily CIA? Was that simultaneously with the switch from Gadd to Dutton?

. A I don't know that it was simultaneous. It happened over time.

. Q What caused the change? What occasions or hints caused the change?

. A You are asking me to go through a thought process that took place over two or three months. I am not sure there was any one thing. I think it was a collection of things over time.

. Q Can you name some of those things?

. A Specifically no, because I think it took place on a gradual basis as I watched what was happening back and forth. It did not--when I think of the CIA, I think of cost operations which are secretive and so forth. This certainly was out in the open while we maintained a sense of discretion around it. We didn't go out and talk about it on the street and so forth.

. As I said yesterday, there certainly was no attempt within the company to disguise ACE or to--my God, man, when you park a camouflaged aircraft out on your ramp and work on it, you are not conducting a covert operation. You see the traffic that goes up and down 36th Street and around Perimeter Road.

. Q Was there anything in addition to the lack of secrecy in the matter that made you think that it had changed from, changed its nature?

. A You say changed its nature in my own mind?

. Q Yes, in your own mind.

. A Specifically, no. I can't pin it down to anything.

. Q You can't recall any conversations with any persons that gave you some information one way or the other?

. A No.

. Q To go back to people whose names you may, people you may know or whose names you may have heard in conversation or seen on company documents or other documents with which you dealt, Adnan Khashoggi?

. A I have seen his name in the newspaper very prevalently, but that is the only place I have seen it.

. Q Donald Fraser.

. A No.

. Q Earnest Miller.

. A No.

. Q Vertex Finances.

. A No.

. Q Euro Commercial Finances.

. A No.

. Q Manucher Ghorbanifar.

. A No. When I say no on these, I mean I may have in glancing through an article seen one of these, but they are not familiar to me. It is nothing that I would retain.

. Q Apart from the press.

. A Yes.

. Q Jacob Nimrodi.

. A No.

. Q Al Schwimmer.

. A No.

. Q Amiram Nir.

. A No.

. Q David Kimche.

. A No.

. Q Michael Ledeen.

. A No.

. Q Robet McFarlane.

. A Through the press. Again I have never--it is nobody I have ever talked to or met.

. Q You have not seen his name or heard his name in connection with anything done by Southern Air Transport?

. A Oh, sure, I have.

. Q Other than in the press, I mean?

. A Other than in the press, though, I have not seen anything.

. Q John Poindexter.

. A Obviously, yes, and the same type of answer. I mean, he has been connected to what you call the problem by the press, but I have never seen anything within the company or heard anything within the company that--

. Q Oliver North.

. A Same answer on that one.

. Q Charles Tyson.

. A No.

. Q Robert Lilac.

. A No.

. Q Cyrus Hashimi.

. A No.

. Q Willard Zucker.

. A No.

. Q Company DeServices Fiduciaries.

. A I have seen that name on a wire transfer that came into the ACE account.

. Q And other than that?

. A Other than that, no.

. Q Shawn Desenoclaw.

. A No.

. Q Sheik Musavi?

. A No.

. Q Udall Corporation.

. A Yes, through wire transfers, through a bill of sale that I made out for a couple of Caribou aircraft.

. Q Have you ever had any knowledge of any persons connected with Udall Corporation?

. A The only person that I can connect with Udall was Dick Gadd because Dick was involved in the purchase of the Caribou aircraft and that is who I sent the bill of sale to.

. Q Other than that, you know no other person who might be an officer or an employee or even a clerical worker?

. A Anything beyond that would be supposition.

. Q Let's go back to Exhibit No. 7 from yesterday.

. Let me ask--

. MR. VAN CLEVE: Excuse me just a second. Do we have a copy for the witness?

. Q MR. KIRSTEIN: Is that this big one?

. Q MR. TIEFER: Yes, it is.

. - MR. VAN CLEVE: At some point this morning I would like to have a couple of copies of this reduced-size document. I thought we asked for that yesterday.

. Q MR. KIRSTEIN: But I didn't--I didn't get the thing to get it copied.

BY MR. TIEFER:

Q Let me ask if you can explain a little about the way money came in to pay for expenses connected with ACE. There were a number of wire transfers. Other than wire transfers, was there payment for ACE in any other way?

A No.

Q And how about East, Incorporated? Was there payment for East other than wire transfers?

A I go back to what I said yesterday. Payment from East came only by check. I never recall getting a wire transfer from East. I thought I was pretty emphatic on that yesterday.

Q For your benefit, so that you know I am not trying to lead you into contradictions on the second day of what you said on the first day, we have obviously not had a transcript from the first day.

A Sure. I understand that, but we went over that three or four times yesterday and I thought that I had made that point.

Q And appreciate your being clear in your own mind so that the same answer comes back each time.

MR. TIEFER: Looking at Exhibit 7, page 402, the top page of Exhibit 7, in fact, since I will be referring to it as Exhibit 7, you might prefer to use the large print. We understand that Exhibit 7 and the large print that he is examining is identical.

MR. KIRSTEIN: Right.

BY MR. TIEFER:

Q In the ACE column, one sees a number of figures that have brackets.

A Yes.

Q For example, on page 402--

A Line 41.

Q --line 41 which has the initial CHTLTR at the left and you have a bracketed figure.

A Yes.

Q What is that figure?

A That shows an application of funds or receipt of funds to that particular account.

Q How did those funds come in?

A On this particular one they came in by wire transfer. They came in, I can tell you exactly what they are. One was a $53,000 wire transfer out of the ACE account in Panama, and the second was a $11,000 wire transfer out of the ACE account in Panama.

They were to reimburse Southern Air Transport for the moneys that we expended in setting up ACE. It was to purchase some parts for the first Caribou. The big item in there was a R-2000 engine for that particular aircraft, and it was to reimburse us for some expenses that we incurred in that application.

. Q If I can refer to another exhibit, Exhibits 5 and 6 which show disbursements from the ACE account in Panama, as you recapped them.

. Why don't you look at the other one, which is Exhibit 6.

. A Doesn't make any difference because it is going to be here. There was a wire transfer on the 4th of March for $53,268.38, and an additional wire transfer on the 21st of March for $11,079.43, which you are going to tell me doesn't--

. Q No, no--well, I am not going to tell you anything, but I am not interested in small differences.

. A There is a small difference, but that is basically the $64,000 that is reflected here.

. Q By the way, just because I am not going to ask detailed questions about small differences, could there under some circumstances be a small difference in what kinds of things might create a small difference? Are there bank fees along the way?

. A There are bank fees that might enter into that. There are--obviously there are errors of transcription as I go from one to the other. If there are small differences, it is more apt to be bank fees that were taken out along the way.

. Q Okay.

. Let's continue on in Exhibit 7 down the ACE column looking for bracketed amounts.

. A Okay.

. Q On page 403, there are none.

. Correct me if I am wrong in any of these things I am asking questions on.

On page 404, the first bracketed amount appears to be on line 12 opposite THCLCR.

. A For $67,500.

. Q Can you explain where that money came from?

. A Yes. This had to do with the purchase of the first C-123 and the second Caribou and what it is wire transfers, one for $475,000 which you see on line 7 of Exhibit 1442, Exhibit 6.

. Q Exhibit 6, go ahead.

. A Strike the reference to 1442 because we are talking C&S Bank here.

. It consisted of three wire transfers, one for $400,000 that went into C&S; one for $75,000 that went into C&S, and one for $200,000 that went into C&S.

. Q Now, apart from where those--apart from cash receipts or wire transfer notations, is there a schedule of such transfers into C&S, a recap or any overall sheet that you have produced concerning all such transfers into C&S?

. A I don't know as we actually scheduled them out, but we do provide a packet of individual wire transfers and transactions which will trace back to these bracketed numbers.

. Q But to your knowledge have you at any time prepared an overall recap or overall schedule of wire transfers into CES related to ACE?

. A Again, as a memo-type entry for myself, I probably did, but I don't--

. Q Do you still have that?

. A I don't know whether I do or not. I would have to check. Obviously it wasn't produced in this package of documents if you don't have it.

. Q Well, you can't deduce from me. You don't recall producing that as part of document production?

. A We produced so many documents, I can't remember what we gave you and what we didn't.

. Q Where in your office would you be keeping memoranda such as the ACE recap and the recap you are referring to now, in a particular file, are they together or what?

. A They could be in a file in my desk.

. Q Does that file have a name on it?

. A It might say ACE on it.

. Q To your recollection, if you have a file with the name ACE on it such as you describe, have all the documents in that file been produced to us?

. A To the best of my knowledge, all those documents have been produced to you with--I am not going to say that because I am being absolute.

. Q We are talking now about a schedule which you think may be in that file, but may not have been produced to us.

. A There was--let me answer the question this way, if I may: This is what was actually charged through to ACE.

. Q And you are referring to--

. A To the pass through column.

. Q The ledger that begins with 402 and we have marked as Exhibit 7.

. A Right. This is what we actually charged ACE with. I capped a handwritten schedule of obligations, commitments, if you would, purchase orders and so forth, that I was told we were going on the maintenance side. It was not all inclusive, but it was a way of kind of tracking funds to be sure that we didn't get, that they dint' get ahead of us so we basically kept up with what was owed to us.

. Q Is this a lengthy thing?

. A Oh, it is a couple of pages.

. Q In your handwriting?

. A Yes, but I believe that was produced.

. MR. KIRSTEIN: If anything existed in Bob's handwriting like this, ACE sheet, I am sure we produced it if it still exists.

MR. TIEFER: Let's continue on with the description.

BY MR. TIEFER:

Q Where were you getting the information that you were entering by hand?

A Off of purchase orders which had been--what we actually incurred and we may have issued a purchase order--bear in mind these are old--we may have issued a purchase order for a part that we couldn't get so it may not have ended up in our system and we may not have actually purchased it because we couldn't get it. We tried to and it was not available so to draw a correlation between one and the other is--

Q Do you remember what else was in the file that you had in your desk marked ACE?

A At one time most of the invoices that appear on here--

Q Here is Exhibit 7.

A --were in there. Those have since been pulled out and are segregated in one area because we needed to do that in order to produce them to you.

Q Do you mean you kept a separate copy other than once that went through the regular channels for invoices in the company or did the original invoices in a sense go into

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the file you are talking about?

. A It would have been a copy because we had to go through our accounts payable files as such to pull the original invoices.

. Q So in the case of ACE, additional copies were made and you, of the invoices and you put them in your ACE file.

. A Yes.

. Q What else would have gone into the ACE file?

. MR. KIRSTEIN: Let me just say, that was in response to these documents request that we have been getting from the government since December. It wasn't done before that. I think you are getting confused.

. MR. TIEFER: Well, I appreciate the clarification.

. BY MR. TIEFER:

. Q Is that true, Mr. Mason, that you started putting these copies in your file late last year?

. A Let me answer the question this way.

. Q Sure.

. A I always maintained a file which had copies of purchase orders.

. Q For ACE?

. A For ACE.

. Q All along?

. A All along.

. Q And all along you were making copies of the

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originals, the originals were continuing to flow in the regular channel and you were making copies?

A No. The original would flow through the regular channels and I did not get copies of those until we started producing documents.

Q So the ACE file did not contain copies--

A Did not contain copies of invoices.

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. Q Okay. Prior to December of last year, what else would the ACE file contain?

. A It would have contained some of the documentation we have looked at as exhibits.

. Q Such as?

. Such as the incorporation papers out of Panama, such as the wire transfers for--requesting fund transfers, the bank statements, that type of thing.

. Q Anything else?

. A That would be pretty much it.

. Q Any other notes on your pad, such as notes on the Robert W. Mason stationery?

. A No, I mean, let me clarify.

. Q Sure.

. A You pulled out one yesterday. When I would call the bank and I needed to inform Daisey of what funds we had available, it was not unusual for me to give her a handwritten note saying ''I received this transfer, and this is what it is from.''

. Now, why one ended up in the file and the rest of them didn't, I don't know. I mean, the normal procedure would have been to have tossed it once it served its purpose, and once it got to her, it served its purpose.

. Q Who usually threw that out, you or her?

. A Daisey. Once it leaves my desk, you know.

. Q Other than the things you have named, you don't recall anything else going in the ACE file?

. A Specifically, no.

. Q Now, we started with a question about whether there was a recap of the C&S wire transfers. You explained to me that there was a listing that you kept by hand of the maintenance charges. I may not have gotten that straight, what I first started asking you about. Was there any recap of the wire transfers into C&S?

. A Along side that, if I knew what I was spending or what I was obligating myself to, I also had to kind of keep track of what came in.

. Q So it is one the same list.

. A So it is on the same list.

. Q Did you keep that from the very beginning of the creation of ACE?

. A No, I think I picked that up along in April, because it was really, the first Caribou did not come to Miami, so it was after the delivery of it, I guess the first C-123, that we started to incur expense here.

. Q Did you ever make copies of it or show it to anybody?

. A Yes.

Q Which?

A I made copies of it, showed it to Bill Langton.

Q You gave him a copy?

A Sure.

Q Did you give copies to anybody else?

A I did not give copies to anybody else.

Q Did you show it to anybody else?

A I don't recall showing it to anybody else.

Q What was the occasion when you gave copies to Bill Langton?

A My recollection is that it was at a time when a question was asked of him as to what we had spent. We had made a request for additional funds, and that was--he just wanted kind of a recap of what had been spent. He came to me and asked for it.

Q And told you what you just said.

A Yes.

Q Do you remember about when that took place?

A I would say June, but that is a real wag.

Q Exhibit 5, which is the recap that comes up until June, you also prepared this in June. Am I correct?

A Yes. Let me say that it goes through June. I cannot tell you when I started it because I don't have my initials or a date on the top, as I do on 1442.

Q You have no recollection of when you were doing it?

. A I really don't.

. Q Do you recall why you created that in June or at some other time?

. A The obvious reason for creating this particular document would be to see where we were with the ACE account. I could look at a bank balance and say this is, ''I got 'X' number of dollars in there,'' but what came in and what went out, you know, well--

. Q You were keeping the bank records in the ACE file?

. A Yes.

. Q And you kept this recap in the ACE file?

. A Yes.

. Q So it was in a way a more convenient reference paper than the loose bank records that you had in the ACE file?

. A Obviously.

. Q Okay. Now the list that you were describing, the handwritten list that had both the maintenance charges and the C&S transfers, you said you made copies of that in response to Bill Langton's request. Is there any possibility that you received a request that caused you to create the document that is Exhibit 5?

. A That is possible, but I don't recall receiving such a request.

. Q It is possible you received such a request?

. A I am saying it is possible, but I don't recall.

. Q Okay.

. A Let me just make a statement.

. Q Go ahead, sure.

. A This particular activity was a very small part of what went on last year at Southern Air Transport, and a very small part of the things that I needed to pay attention on a daily basis, and, you know, to ask me specifically when this took place, I couldn't tell you. You know, it is February now, and I can hardly remember what happened through the month of January.

. Q I can only ask you to try to recall what you can recall.

. A Well, it is--

. Q What other files besides the ACE file did you keep in your desk on an ongoing basis?

. A I got personnel files in there which had my notes and my evaluations of people in my department; I kept wire transfer forms, I kept check request forms, personnel status change forms. I may have kept certain contract files in there that we were dealing with on a daily basis, I probably kept my insurance file in there because I was dealing with that on a daily basis, I may have kept C&S, kept the daily summary of investments that I make through C&S, probably kept that file in there.

. Q When you say you kept wire transfer in there, you mean domestic wire transfers?

. A No, wire transfer requests. When a wire transfer is originated here, there is a form that we fill out. I just don't pick up the phone and call the bank and say ''Make this wire transfer.''

. Q You mean when Southern Air Transport money is wired somewhere else?

. A Is wired out, it is just a blank request form that gives Daisey, if you will, the information that she needs in order to properly book the wire transfer and to tell her I have taken that money out of the account.

. Q What banks do you do your outgoing wire transferring out of?

. A They go out of C&S.

. Q Was there any other customer of Southern Air Transport besides ACE for which you kept a file in your desk?

. A Probably kept a file on the leased 707 that we had, which we had leased to LAC Airlines because that was something I tracked on a daily basis. I probably kept a file on International Aircraft Services because I tracked those payments fairly carefully. I kept a partial, which was a rotating file, on log air payments so I would know what was coming in on a weekly basis. I am sure there are

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others, but that is--

Q You mentioned yesterday that IAS is in Ireland?

A Yes.

Q The principal offices. And they use a London bank?

A Yes.

Q Do they have people in the United States with whom you deal, or are their people all overseas?

A We deal--

MR. KIRSTEIN: What is the relevance of IAS?

THE WITNESS: I need to take a break.

MR. KIRSTEIN: You are here two days, this is it for Bob Mason. I think you ought to get through this material, because I think you are wasting a hell of a lot of time on things that are irrelevant. We produced virtually everything. If there are other documents that might exist, we are happy to look for them.

But I don't think internal workings of Southern Air is really what you are here for. You may think is it, and you are welcome to pursue it, but he is not coming back for another day of depositions.

THE WITNESS: I would like to say something, but off the record.

MR. VAN CLEVE: What is the purpose for going off the record? If you would like to say something, let's have it on the record.

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THE WITNESS: Okay. I am really fed up to here and more with these people, and I am not--I guess I am putting you in the same boat--coming out of Washington with preconceived ideas and thoughts that we are running a covert operation of some sort down here, looking for flies in the ointment. I am telling you, you ain't going to find it, and all you are doing is wasting our time, you are wasting your time.

Where you really ought to be looking is in the banks of Panama, the banks of Switzerland to find the answers to your damn questions; and until you get that through your damn heads, you are just going to be spitting against the wind for distance.

Now I need to take a break.

MR. TIEFER: We can excuse the witness, but the record between the counsel has to be clarified. I don't mind the witness being excused for ten minutes.

MR. KIRSTEIN: Why don't you go ahead. My point, in lighter terms than Bob, is that these guys are trying to run a company, they are trying to be helpful to the committee, we really have made an effort to be helpful to all the government agencies investigating, and the reason is because the company has not done anything wrong.

We would like to be able to lead you to really the sources of what you are looking for, which I imagine are the

Dick Secord and Dick Gadd and Oliver North and those people, but I think that to go through these documents in excruciating detail--and I can appreciate your wanting to do examples here and there to understand how the documents work--but we do have to run a company. We just can't go on for weeks like this with people like Bob Mason. That is the point I am making.

I just want you to know that after today, we really don't intend to bring him back for more depositions unless there is some real compelling reasons to do it.

MR. TIEFER: Well, let me respond to several of those points. You have stated that we will have only two days for Robert Mason, and he is not coming back.

I have, and no one for the House Committee has at any time suggested that there is an end point for the questioning of Robert Mason, and we have at no time made any agreements or representations that there is a limit of two days or an end point.

MR. KIRSTEIN: I understand.

MR. TIEFER: That is correct.

MR. KIRSTEIN: That is correct.

You have never set anything.

MR. TIEFER: We can discuss on the record the reasons why there will not be an end point until we have completed our inquiries, but I just want the record to be

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real clear that this is the first suggestion that there should be some limit put on the need to pursue all relevant subjects with Robert Mason.

MR. KIRSTEIN: Well, I have no problem with proceeding through relevant subjects, but we have spent a lot of time on things that are irrelevant that will really not lead anywhere, and it is not the company's business to participate in a broad ranging inquiry into every aspect of the company's business. That is not within the scope of the subpoena.

Now, as I said, if there is some compelling reasons to go beyond this in terms of the deposition, we are happy to look at it. But if it is not, we will just have to take it up with the committee.

MR. TIEFER: The second point I wanted to make was a particular point with respect to IAS, which is what I was asking about, that during the testimony yesterday, when I was asking about where overseas wire transfers had come from, they had come from very few sources, and IAS was one of them.

Overseas wire transfers to Southern Air Transport are very relevant to this investigation. You may prefer to think that some are clearly irrelevant, but I believe that any overseas wire transfers to SAT is very essential to this investigation.

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MR. KIRSTEIN: Well, I don't understand IAS to be involved at all in the scope of your investigation. I don't want to, I am not telling you not to answer the questions, I am not advising him not to answer them. I hope you appreciate that I have not told him not to answer anything.

MR. TIEFER: I am well aware of the distinction between a counsel asking the relevance of a question and a counsel instructing the witness not to answer. You have asked the relevance of the question, you have not instructed the witness to refuse to answer.

MR. KIRSTEIN: I am just saying that I just hope that you can try and focus the thing so we can get it done. That is really the point of my tirade here.

MR. TIEFER: The third clarification is about whether the inquiry with Southern Air Transport will be narrowly focused or more broadly focused. When we were having a discussion yesterday with Mr. Bastian, Mr. Langton, and you were present and counsel for the House and Senate were present, he said some suggestions similar to what you are saying, namely that the company has a business to run, that they provided all the information we need.

And at that time I advised him that Congressional investigations tend to go in depth in matters that are of particular interest, and Southern Air Transport is of particular interest. I understand the company's position that it wishes that the investigation would be narrow, the position of the House committee is that it is going to go into a great deal of detail with respect to Southern Air Transport.

Do you have anything you want to add?

MR. VAN CLEVE: No.

MR. KIRSTEIN: Well, you know, that might be something we will have to take up with the co-chairmen of the committee.

MR. TIEFER: Another possibility is that we might have an off-the-record discussion at some point, and I will be glad to go into detail, because I think you would prefer that we had a frank, off-the-record discussion as to why it is necessary to do this than for me to lay out on the record a great deal of why we consider it necessary to do that.

MR. KIRSTEIN: I would like to do that because, as I say, if we can be helpful, we want to be helpful. If there are things that you are looking for that we can provide you, we want to provide them.

MR. TIEFER: The particular point at which this whole discussion took place was where, as you know, we were discussing a possibility that there is a lengthy memorandum concerning ACE which was not produced. We will see whether it has been produced or not. I don't know at this point whether it was produced or not. I am making no accusations and have made no accusations yesterday or today about noncompliance.

But it seems to me that it is inappropriate at the precise point when an important document kept by Robert Mason about ACE has been discovered that may not have been produced to complain about probing inquiries by the committee.

MR. KIRSTEIN: I think you are taking it out of context. It was the question about IAS that prompted the outburst. As I say, we have attempted to produce all relevant documents. I said that in my letter. I said there may be other documents that have been missed or misfiled and that we would be happy to look for them and produce them. I can assure you if there is another ACE document, we will attempt to find it and produce it. There is no reason for us to produce all this and withhold the document he was discussing, so, you know, if it does exist, we will attempt to produce it.

MR. TIEFER: And if copies of it were provided to Mr. Langton, you will produce those copies, too, I hope?

MR. KIRSTEIN: To the best of my knowledge, we have produced every document that was in Mr. Langton's possession that is relevant, but we will look again.

MR. TIEFER: You should understand I said I would hope it would be produced. I have not yet made supplementary document requests coming out of this deposition. You may fairly imagine that I would consider such a document covered by the previous subpoena.

MR. KIRSTEIN: Well, I will--I will ask Bob to look for that document during the lunch break, because if it does exist, I think you might want to ask him about it today. I don't have any problem with that. I would rather not wait for supplemental requests if there is a relevant document that we can talk about today.

MR. TIEFER: Good.

MR. KIRSTEIN: I was just saying that if this document that you have been describing exists, I would like you to, when we take the lunch break, see if you can locate it so we can give it to them so if they have questions on it, they can ask them.

THE WITNESS: Okay.

MR. TIEFER: Are you ready to resume, Mr. Mason?

THE WITNESS: Yes. I apologize for my outburst, but I mean every word of it.

MR. TIEFER: Not every witness I have examined has loved me, Mr. Mason.

THE WITNESS: I am sure that is true.

MR. KIRSTEIN: I don't think there is frankly anything personal about it. I think what Bob is concerned about is just having the entire U.S. Government bother you for two months gets to be a headache.

THE WITNESS: Yes. Plus the fact that it seems like whatever we say shows up in the paper the next day.

MR. KIRSTEIN: That is not Charles' fault.

THE WITNESS: That is not him, no.

BY MR. TIEFER:

Q We were looking at Exhibit 7.

A Okay.

Q I might say that for each entry in the ACE column, you were tracing it to some figures that don't obviously link up, but when you showed the connections add up to that figure. It seemed to me it was very useful to go through that.

We had just done the $675,000 figure on page 404.

MR. KIRSTEIN: I don't think we ever actually got through explaining what the $675,000 was for, maybe Bob could finish that.

MR. TIEFER: By all means, go back and complete that.

THE WITNESS: As I said, it is made up of three elements, and it ties in on the Exhibit 1442 with a wire transfer on April 10 of 1987, which is shown on line seven. When the first--$475,000--when the first C-123 was purchased, we were asked to obtain a cashier's check to pay for it, and funds were to be transferred into the C&S account. And at the same time they were transferring funds for the second Caribou.

What ended up happening was the wire transfer that should have gone to C&S ended up in ACE, and the one that should have gone to ACE ended up in C&S, so we were $75,000 short in C&S. So that is where the 400 came from. 75,000 was transferred out of the ACE account to C&S once that transfer showed up, and that is shown on--I don't have the line number here--but it is shown on 411-86 as a wire transfer to SAT. Then the $200,000 was a payment against maintenance.

BY MR. TIEFER:

Q And where is that $200,000 wire transfer shown? It is not shown on the ACE recap sheet.

A No, it wouldn't be, because we are talking C&S.

Q It may be useful at this point, I show you a document numbered 1079 and ask you if you can identify that.

A Yes, that is the cashier's check that was drawn for the purchase of the C-123.

Q The one you were just describing?

A Yes.

MR. TIEFER: Let's mark this as the next exhibit.

[The following document was marked RWM-20 for identification.

928 ******** INSERT 1A-1 ********

DCMN QUINTERO

THE WITNESS: I would like to make a further explanation on this cashiers check, because the remitter is shown as Udall Research Corporation/Southern Air. This was paid for with funds that came from C&S, which were wire transferred into Southeast in order to draw this check.

At the time I obtained it because it was really not a Southern Air transaction--again, we were accommodating a customer, tried to get them to put just Udall Research on it as the remitter. They relented and said, we will put it on, but we also have to put Southern Air on, because you are the people that are presenting the check that this is drawn on. I think that is a very important distinction in this.

BY MR. TIEFER:

Q I don't intend to go over and over what you said at the FBI. I understand you made a complete explanation of that to the FBI, am I correct, or some explanation of that check?

A My recollection of the FBI was they never asked me about this one.

MR. KIRSTEIN: I don't know. I wasn't there.

THE WITNESS: Oh, that is right.

MR. TIEFER: I don't need to go into that.

We will let the witness confer with his counsel.

MR. KIRSTEIN: Bob is just asking if you would like us to go through this ACE account, and do like what we did for the FBI on those lists [redacted] and Tel Aviv flights, to explain what each one of these payments was for.

MR. TIEFER: You understand I intend to make, or it is possible to make a supplementary document request. But if you wish to do that, you can see the way in which that would shorten the examinations.

I am not requesting, it but if you are providing it I can see it would be in your interest to provide it.

I am going to put Exhibit 7 aside for the time being.

BY MR. TIEFER:

Q Yesterday we received a document from Southern Air Transport No. 1821. I ask you if you recognize that?

A Yes, I do.

Q Can you identify?

A Yes, it is a recap of [redacted] and Tel Aviv activity performed by Southern Air Transport. It was presented by myself on the 22nd day of January, 1987, in response to a request by the FBI.

Q And what did you use as the underlying documentation for preparing it?

A I used the cash receipt forms that we keep on a daily basis and the supporting documentation for those.

MR. TIEFER: By the way, since I have only one copy of it and I want the witness to be able to use my copy, if I

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could borrow a copy.

THE WITNESS: I have one here.

MR. TIEFER: Wonderful.

BY MR. TIEFER:

Q If we could look at the entry on page 1822, number 8. That refers to figures of $25,000 and $50,000. Can you--I will show you the underlying document.

A I am familiar with it.

Q Can you explain that transaction.

A This came about in August of 1986 and again in October, while we had no flights to Tel Aviv our crews did perform some live flights out of Tel Aviv.

We charged approximately $25,000 for doing that.

In trying to pin that down when the FBI was here, I could not identify a specific wire transfer for that, but Bill Langton was in on the conversation, and we took a portion of this $50,000 transfer that came in shortly thereafter and assumed that that was, a portion of it was for parts, and a portion of it was to pay us for that particular activity. It was not flight activity that would be booked as flight revenue.

Q So what was the underlying documentation for making the division of $50,000 into $25,000?

A The underlying--I am not sure there was underlying documentation.

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. Q So that was the basis for making that?

. A The basis was that--Bill's reaction was that he told the customer that this particular activity was going to cost $25,000; and the money was wire transferred. I don't have a transfer for $25,000 within that time frame.

. Q Where did the other $25,000 go?

. A It went into the--actually if you look at probably the whole $50,000 went into the ACE account in September. It probably all shows up in there.

. Q Perhaps I am missing something. What was the distribution?

Am I correct that you took $50,000 and you are distributing it between $25,000 in one place, and $25,000 in another place?

. A The question that was asked was, you know, where does the $25,000 that you received for this show up, and we are saying it shows up in this wire transfer. Because there was no flight activity it would be booked entirely--do you understand what I mean by booked?

. Q Not entirely.

. A Okay.

It would be put into our records, or recorded in our records differently than any of the previous activity because it was not our aircraft actually performing the flight. It was really kind of like lease-a-crew, if you will.

. Q I understand it was a SAT crew, but not a SAT aircraft?

. A That is correct.

So what we incurred was some travel expenses and some hoteling expenses, and this type of thing connected with that. And it would be handled entirely different.

. Q And the $50,000 wire transfer contained $25,000 other than for the crew. What was the other $25,000 for?

. A For parts, for maintenance within the--for maintenance that we are doing on the aircraft.

. Q And was it the aircraft that are in the Central American program?

. A Yes, yes.

. MR. TIEFER: Let's mark this document that is SAT, page 1921 and 1922 as the next exhibit.

[The following document was marked as Exhibit RHM-21 for identification:]

********** INSERT 2 - 1 *********/

ex21.

BY MR. TIEFER:

Q I am going to continue showing you some documents that were provided to us that you may never have seen before, and if you have never seen them before, just say so.

I show you page 743 through 745 and ask you if you have seen them before?

I correct that; I believe I have included 746 in that.

A I don't recall seeing these before.

Q You can't identify them?

A No.

Q That is it for that document then.

Let me show you documents that are pages 904, 937 and 959, which may not be--which quite likely are not one document but were part of one batch of documents, so the pages are quite possibly separate documents.

I would ask you to examine those.

If you are asking whether those are selected pages from a larger document, the answer is, yes, I did not copy the entire production of SAT and bring it down.

Shall we start with page 904. Can you identify it?

A This is a bill of sale that I prepared transferring the first Caribou from ACE to Udall Corporation.

Q Can you describe the background that preceded your preparing this bill of sale?

A If I follow your question, I was asked by Bill Langton to prepare a bill of sale for that aircraft to Udall corporation and execute it.

Q Did you take part in the location of that aircraft or the negotiations over its purchase?

A No; I had nothing to do with that.

Q Did Bill Langton just come to you one day and say this, or was it a meeting, or just a little more detail, if I might ask?

A I am thinking he came to me, or called me over to his office one day and asked me to do it. I obviously knew we had the aircraft. I had paid for it. It was paid for out of the ACE account.

Q Let's back up, and if you might recount the story of the purchase of that aircraft.

A Where do you want me to start?

MR. KIRSTEIN: To the extent of that you have knowledge of it, Bob.

THE WITNESS: I knew that in November of 1985, that we were attempting to locate some aircraft for this particular project, obviously I would go down and set up the account, and the company, and knew that we were attempting to locate some aircraft.

We had tried two or three different places to obtain aircraft. We had, I guess, people in Venezuela for quite a while because we understood that there were some C-123s for sale down there.

Somehow or other, and I am not sure what the process was, they located Caribou in Canada and found out that they were for sale. And our people did go up and look at them, inspect the records, and so forth, and make an offer on them in the name of ACE, which was accepted.

BY MR. TIEFER:

Q Let me back up; I think I might be able to connect this since you place it closely in time with the beginning of where you were accounting for yesterday.

As he we left you yesterday, you had gone down to Panama, purchased ACE, made the Banco de Iberoamerica account, and had just come back to the United States?

A Yes.

Q You had intimated yesterday, at one point in that discussion, that you showed the documents that you brought back concerning ACE to Mr. Langton and Mr. Bastian?

A Yes.

Q If we pick up the account, you arrived back in the United States; and then what happened?

A I am not sure I follow what you are asking.

Q Okay, when you came back to the United States, did you--you brought the ACE documents to the firm?

A Yes.

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. Q And then what happened?
Did you let Mr. Langton know you were back?

. A Yes.

I got back, I think, on a Saturday, and I talked to him that evening, told him what I had set up. There seemed to be some urgency on the part of the customer to transfer funds.

If you look at the Exhibit 5 or Exhibit 6, you will see that the first transfer went in shortly after I got back in November because they were again looking for aircraft that they could obtain quickly.

. Q When you met with Mr. Langton, was Mr. Bastian present at that meeting; or were there several meetings or what?

. A I talked with Mr. Langton by phone on Monday. When I came into the office I did show him the documents.

I believe he passed them on to Mr. Bastian, so Mr. Bastian could look at them.

. Q Were you present when Mr. Bastian got them?

. A No.

. Q Did you talk to Mr. Bastian at any point about it, I mean around that time?

. A I don't recall having any specific discussions with him.

. Q Did Mr. Langton tell you anything more about ACE at

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that point or what--

A Told me to be on the lookout for a wire transfer and let him know when it hit.

Q Anything further about what the customer was going to want to do with ACE?

A No.

Q And a wire transfer, the next thing you knew a wire transfer came in?

A A wire transfer came in and, I think, we were aware that it was coming and had called the bank down there to verify that it was in.

Q By this, do you mean you telephoned Banco de Iberoamerica?

A Yes. Picked up the telephone and dialed the number and talked to the account rep down there.

Q What next happened with ACE after you found out the money had been transferred?

A Nothing, really. It really--again, I would want to go back and look at Exhibit 5 and 6--but it seems to me that it was dormant. There have been another--I guess there was another wire transfer into it at the end of November, but it really was dormant, I think, until right after the first of the year when a deposit was made on the first Caribou.

Q Did you come to know at some point that you--you did not know when you went down to Panama that Dick Gadd would

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want airplanes to be purchased for ACE, did you?

. A Specifically I don't think I knew that, but that is--I don't recall knowing that. I may have.

. Q When did you find out?

. A Well, I think it was shortly after I got back because I knew that we had people out looking. Certainly in the month of December there was a lot of time spent in Venezuela trying to pick up C-123s.

. Q And how did you know that the people who were looking for C-123s were doing it for ACE?

. A We certainly didn't have any need for them in our fleet, so--

. Q Did you have any discussions with anyone who said who this was being looked for?

. A I may have; I just honestly don't recall.

. Q Do you know who in the firm at this time new of ACE besides you and Messrs. Langton and Bastian?

. A Tom Hazlett, because he was with me. I am not sure who else there was, I don't know.

. Q But the next thing you did besides--you became aware that people were looking, and you either surmised or were told that the party they were looking on behalf of was ACE?

. A Well, if I have--I don't know what there was, I am guessing at a number, $600,000-sum odd, sitting in the bank, and I have people out looking for aircraft that I don't need

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in my fleet. It doesn't take a mental giant to figure out what is happening.

. Q Okay.,

Just yesterday you made a remark that it was ACE--you looked at the general power, and so forth--did you have any particular feeling at that time that you were going to be involved in the management of what is done with ACE?

. A I didn't really feel I had anything to do really with what was happening, and I need to make that distinction. If it was ACE--I mean, the documents clearly say it.

It was not a SAT subsidiary in any way, shape, form or manner. It was a separate company that was set up by an individual who went down there to do it and I did it. And you know I need to make that distinction very strongly, because I don't want qualifications in my audit statement saying this is a SAT subsidiary that you are not reporting on.

I think you can follow what I am saying.

. Q The more you explain it the better the record is.

. A I did it. If I was asked to do it again, I would do it again. I have no regrets that I did it.

You know, if, in fact, I did something wrong, so be it. I don't know whether that is really what you are asking me but--

. Q When you say you were ACE, did you consider yourself to control the company?

. A I was the only person who had signatory authority on the banking account and the company funds.

. Q Did you consider yourself to own the company since--

. A No.

. Q You had the bearer shares for the company in your desk?

. A Yes.

. Q And since normally the owner of a company is the person who owns the stock, and the person--you can correct me if you have different impression--the person who has bearer shares is the person in possession of the stock.

Would you explain why you did not think you owned the company?

. A I guess if you look at it in that context--

. Q I am not trying to persuade you, I am asking you whether you thought you owned it, and if not, why you didn't think so.

. A If you look at the circumstances surrounding it, I guess all the evidence would point to the fact that since I had the share and everything in my possession, I had the broad power of attorney, and so forth, that under the law I was the owner. I never thought of myself as being the owner.

. Q Okay.

Who did you think of as the owner?

. A I don't know as I every really--if that really entered my thought process. It really was almost a situation of ACE owning itself. It is hard to do, but--

. Q You didn't think of Southern Air Transport as owning ACE?

. A Definitely not.

. Q Did you think of Dick Gadd owning ACE?

. A No, I don't really think I--I don't think I thought of Dick Gadd as owning ACE.

. Q Did you think of anyone higher than him or the United States Government owning ACE?

. A Very honestly I don't know I ever went through that thought process, who owns, who really owns ACE.

. Q Coming back to page 904, is that your signature?

. A Yes, it is.

. Q Where were you when you signed it?

. A I was here.

. Q Do you remember the circumstances after Bill Langton said would you prepare a bill of sale, did you prepare it and then sign it, or was there further meetings or discussions?

. A I think I prepared it, showed it to him and then signed it.

. Q Did he tell you to sign it?

. A No.

. Q How did you know to put--how did you know--when you prepared it you put a signature line for Robert Mason on at the bottom?

. A Yes.

. Q How did you know to put a signature line for Robert Mason at that time?

. A I guess I would have to go back to say that he asked me to prepare a bill of sale. To me that means prepare it and sign it.

. Q Had anyone ever explained to you that you would be acting in this fashion on ACE's behalf, that is taking acts such as buying airplanes?

. A I think it was part of the--I don't know as anybody explained it in conjunction with ACE, but it was part of the general overall process.

. Q Well, did you--

. A What are you really asking, you know, I guess that is--

. Q I am looking at a piece of paper that says you bought an airplane for a company.

. A No, it says I sold an airplane to a company.

I transferred an aircraft to a company.

. Q Well, the same thing, that is true.

. A I was the intermediary. I think they furnished the funds. I don't know what the wire transfer forms show. I paid for it and I am giving it to them. It wasn't my money that paid for it.

. Q You mean, all right, it is a good distinction. You sold the aircraft to Udall Corporation; is that what you did?

. A Or I transferred it. Let's use the word transfer rather than sold because--

. Q Fine.

Had Mr. Langton told you anything about Udall Corporation?

. A No.

. Q How did you know to put that name down?

. A Let me back up and say, I was told to sell it to Udall. I would have to go back and look at transfers to see if--I don't recall in my own mind when I became aware of Udall Corporation.

. Q Or how?

. A Or how.

I may have been aware of it at this particular point in time,- I may not.

. Q Do you have any idea how you became aware of Udall Corporation?

. A I really think it was through bank transfers. I would have to go back and look at who paid for what.

. Q You mean you have seen their name on wire transfers?

. A On wire transfer forms.

. Q Did you have any idea what Udall Corporation was or who as behind it?

. A Nothing other than what we have talked about before and the general perceptions I had of the whole thing.

. Q Let's spell them out with respect to Udall Corporation. What was your impression as to who was behind it and what it was?

. A My perceptions for Udall was that it was an outgrowth of Dick Gadd's operation.

. Q And from what did you get that impression?

. A Well, Dick was very much involved in--I shouldn't say very much involved--but was involved in, I guess, in giving maybe some direction, and so forth, on the purchase of the Caribous.

. Q You had talked to him before you went down to Panama, over the telephone?

. A Yes.

. Q Did you talk to him after you came back from Panama?

. A I don't recall having frequent--and frequent is, again, a relative word--because I did not talk to Dick frequently, but I don't recall having periodic--let me use that word--conversations with him until really after the

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first aircraft had been delivered to Central America and Dick would occasionally call me for, when he couldn't get a hold of Bill, for some help in having our people locate some parts, and so forth, for them that they needed.

Q I will put the chronology aside and try to get more documents in here.

Let's make document 904 as the next exhibit.

[The following document was marked as Exhibit RHM-22 for identification:]

********** INSERT 2 - 2 *********

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BY MR. TIEFER:

Q Looking at page 937, do you recognize that?

A Yes.

Q Can you identify it?

A This is the document we referred to earlier that said I kept a handwritten running account of where we were for maintenance and parts.

Q It says in the upper right corner that this is page 1. To your knowledge were there more pages than that?

A There was about 4 pages, I believe.

Q And in speaking earlier you had said that there were--there might be wire transfers entered on this?

A I believe there was one of the pages that had payments coming in so I could--

Q A later page than page 1?

A Yes. So I could keep a running total of where we were. There were, I think, four or five pages in the package.

MR. KIRSTEIN: Seven pages?

THE WITNESS: Oh, there were seven pages.

MR. TIEFER: I did not bring with me copies of the pages after 937, as you see I made excerpts from this part of the file.

MR. KIRSTEIN: It starts on page 936.

THE WITNESS: And 936 is the page that I referenced that has wire transfer information as opposed to, it is kind of a summary page.

MR. TIEFER: It might well make a coherent record if we put this aside and when you can, make copies of these pages so we can put the whole document in. I can have him identify the single page that I brought down. Let's put that aside and do that a little latter.

As you can see from the numbers it was in the middle of a set of documents concerning purchase of this aircraft.

BY MR. TIEFER:

Q Looking at page 959, can you identify it?

A That is the delivery receipt for the second Caribou.

Q It has Franklin Zerbe's name. Can you describe how Franklin Zerbe's name came to be on this?

A Frank Zerbe was kind of a, was hired as a manager of the Fort Wayne hub for Burlington for us Burlington for us but is retired, is a retired military person. And he was sent up to Canada to accept delivery of the first and second aircraft, and he was the person in position up there to sign documents.

Q Did he have other things to do with ACE than this particular purchase?

A No, the only thing he was involved in was the purchase of the two aircraft.

. MR. TIEFER: Let's mark page 959 as the next document.

[The following document was marked as Exhibit RNM-23 for identification:]

********** COMMITTEE INSERT *********/

MR. KIRSTEIN: While we have a moment, the pages we were looking at, the ledger sheets that we held off on, you said they were in the middle of that file. Those are the way we found them in Bob's files, we didn't shuffle anything up. It was just, he just had thrown them in there that way and that is how we produced them.

MR. TIEFER: I appreciate the clarification.

BY MR. TIEFER:

Q I show you pages 735 and 736 and ask if you can identify them?

A These are not invoices that I have ever seen before. I can identify a total at the bottom of 735, as being the total of a wire transfer that was made to the ACE account in Panama.

Q You are referring to the sum of $102,000?

A $102,411.57 plus or minus.

Q Let's stay with 735 and then we will go on to 736. Does the--there is some handwriting in the lower left corner, do you recognize that handwriting?

A No, I don't.

Q While you may never have seen this before, do you have any knowledge of the creation of the document, of a document such as this?

A No, other than I would be notified out of Dick

Gadd's office that a wire transfer was on its way to ACE to pay for monthly operations, payroll, what have you, and I should be looking for it and out of that I needed to transfer money to, generally to Corporate Air in order for them to pay.

. Q Were there people in Dick Gadd's office other than Dick Gadd that you talked to?

. A The only other person I would talk to was Cindy Dondlinger who was his controller.

. Q Did you talk to her often?

. A Periodically. By periodically maybe a couple times a month. We had not necessarily in relation to this, we would probably have one conversation a month in relation to this, although we did run into some problems getting wire transfers, getting reimbursed, and I might have more conversations with her trying to trace the origins of wire transfers so that we could find out what happened.

. Some of these later transfers for operational expenses would get hung up in the banking system or weren't made for whatever the reason was, for as much as 3 and 4 weeks. This is one case in point which came in extremely late. I think we chased this one for about three weeks.

. The other thing that, the other conversation I had had with Cindy is over the NHAO flights because we were having trouble getting paid. I hate to use the word we were being stiffed by the government, but that is really what was happening.

. Q Other than Cindy Dondlinger, either from talking to Dick Gadd or form talking to her or from talking to anyone, did you have any knowledge of anybody else who worked for Dick Gadd or with Dick Gadd?

. A I need clarification on the question. When you say worked for or with Dick Gadd.

. Q Cindy Dondlinger, you understand she worked for Dick Gadd?

. A In this office, yes.

. Q Did you know of anyone else who worked in that office?

. A No.

. Q Did Cindy Dondlinger answer the phone if you called up there?

. A No.

. Q Who answered the phone?

. A I don't recall. There was a receptionist of some sort.

. Q Other than Cindy, the receptionist and Dick Gadd, did you ever hear a voice at that office when it called or when you called or when it called you?

. A Not that I can--Cindy and Dick, and whoever was answering the phone, be it a receptionist or somebody else are really the only people that I have ever talked to up there.

Q Leaving aside the question of whether Dick Gadd reported to people above him, or worked with people say outside the United States, is it your sense that the office that you were communicating with was a three-person office?

A No, I think there were more people than that. I had no sense that it was only a three-person office that I was talking to. I have never been there, so I don't know.

Q Why did you have a sense that there were more than those three people there?

A Well, generally it seemed like when I called up there I would get a receptionist and generally you don't have a receptionist for a three-person office.

Q Other than that, did you have any reason to think there were more than three people there?

A No.

Q Did you ever see any paper produced that suggested there were any people there other than those three?

A There were--yes. But I am not talking office employees now.

Q Okay.

A We had, Dick had a contract with the government that required the use of a Hercules aircraft.

Q Do you know the NHAO or another contract?

. A Another one, okay, that was an on-call contract.

. Q Can you explain what an on-call contract is?

. A The government says we need your aircraft at such and such a time, and you show up with it.

. Q Okay.

. A And when that happened, Dick had his own crews on the aircraft. So from that standpoint I knew there were more people connected with his organization. We would use his crews when we were short and they had availability. We would hire them in on a contract basis. So, you know, I knew there was more than Dick and Cindy in his organization.

. Q Okay.

. I gather from what you are saying you didn't know who were in those crews. Is there someone at SAT--you can correct me if I am wrong--do you not know or is there someone at Southern Air Transport who would know who was in those crews?

. A I can tell you who was in those crews.

. Q Please do.

. A Buzz Sawyer was one.

. Q Thank you.

. A I cannot think of what his first name was, Ellis von Haven.

. Q Von Haven.

. A My recollection is there were two crews. I don't

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know the other names.

Q Who at SAT would know who was in those crews?

A Dave Mulligan probably, if you want to talk to him.

Q That may well suffice, but who else besides Dave Mulligan?

A Probably the people over in dispatch. I know in accounting if I wanted to go back and dig out an old invoice, I can tell you who we were being charged for. I just don't recall the names.

Q Before I beat around the bush about this contract, is this contract of a sensitive nature performing for the military?

A Yes.

Q Then it would be better discussed when we were in--would you prefer discussing it--

A It no longer exists. Dick no longer has it. Let me put it that way.

Q Keeping in mind that this transcript is not classified and I do not want this to become a classified session, is there anything further you can say about that contract?

A No, there is nothing further I want to say about it.

Q Without describing the contract, can you identify the office and the military that one could go to for further

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information about it?

A I could.

Q Would you do so?

THE WITNESS: Do I need to answer that? This is really treading on some really sensitive ground.

MR. TIEFER: Let's back up.

MR. KIRSTEIN: I don't think he should answer that on the record here. First of all again, I am not--

MR. VAN CLEVE: We appreciate your concern.

MR. TIEFER: I will withdraw the question. I believe I showed that I was feeling my way around not to create a classified transcript.

THE WITNESS: I probably have already said more than I should on it.

MR. TIEFER: Let's go back to the invoices.

BY MR. TIEFER:

Q Did you ever prepare invoices like this?

A No.

Q You did?

A No.

Q No.

Do you know anyone who prepared invoices like this?

A If you are asking me if I have firsthand knowledge, no. I can tell you who I think prepared them.

Q Sure.

A I think Cindy Dondlinger prepared them.

Q Why do you think so?

A Simply because I would get a phone call from her telling me what the--what both sides of the equation were, what needed to be transferred and what was coming in.

Q Just so we have a clear record, looking at 736 as well as 735 that is also a document you have never seen before?

A No, no.

Q Let's mark 735 and 736 as Exhibit 23.

[The following documents were marked as Exhibit RMM-23 for identification:]

******** INSERT 2A-1 ********

MR. TIEFER: The witness has not identified them but he has given some information of pertinence.

BY MR. TIEFER:

Q During the break, Mr. Kirstein has made for our benefit a copy of pages 936 through 942, and I will ask Mr. Mason, if you can identify them.

A These are the handwritten sheets that I referred to earlier that I kept kind of tracked where we were, parts purchases and repairs for ACE. If you look at 936 I told you I had tracked receipts or had made a handwritten notation and that is what you see in the lower part of the page.

Q Can you read some of the figures on that?

A Well, it looks like it is 200,000, 150, 25, 200, I cannot read the other one but it looks like it totals $700,000.

Q Did you do--go ahead.

A And that--the upper portion refers to expenditures that we had obligated ourself to on their behalf.

Q Turning to a page that has all the column headings, just so we can get the significance of each column heading, page 939.

A Yes.

Q Would you explain column by column what each column signifies?

. A The first column is the vendor, the second is an invoice number if it had been invoiced, the third column is the purchase order that was issued for that particular item, the next column is the amount, and then at one point in time, I am not sure I carried this all the way through, I attempted to break it down as to whether it applied to the C-123 or the Caribou.

. Q Now, there are no dates on this sheet. Do you have a sense as to--

. A Yes, there is, if you will look at the cover sheet, the cover sheet does not have a date at least that I can see. If you look at 936 you can see a 937 you can see a date of 6-3.

. Q And the next thing is--

. A That is my initials, RHM.

. Q What does the date signify?

. A That is the date that I prepared or at least started it. It looks like, just looking at it, like there was a continuation. I guess what I am saying is there were entries made after 6-3 but that was the date the original portion of the document was prepared.

. Q Looking at 939, do you see a date in the upper right corner?

. A Yes, 6-3.

. Q What does that mean, that you prepared all the first three pages by that point?

A On the same day.

Q I see the same date on the 4th page.

A Right.

Q And I see the same date on page 942.

A That is correct.

Q I see 942 says page 2 on it. Earlier pages say page 4. Is it possible that--

A These are out of sequence.

Q Okay. I wonder, there are numbers on page 1, page 3, page 4 and page 2. I wonder if you can tell from looking at them which page numbers the unnumbered pages are?

A Page 1 as you say is numbered. The following page which has no page on it follows--is a sequential page to page 1. So from that standpoint it is in order.

Q Would it be fair to call it page 1A or something like that?

A You could call it 1A.

Q That is 938.

A Yes.

Q 939 says page 3.

A Right.

Q 930 says 4.

A Right.

Q 941?

A 941 would be a continuation of page 4, so you could call it page 5 or 4A.

Q 936, which is the first page in this sequence and which has the receipts on it, you think of as a cover page?

A It is a summary at some point in time and I cannot detail that. It actually is a summary as of--

MR. TIEFER: Off the record.

[Discussion off the record.]

MR. TIEFER: Back on the record.

MR. TIEFER: Let's just mark the document that begins on page 936 and continues to 942 as the next exhibit.

[The following document was marked as Exhibit RWM-24 for identification.]

******** INSERT 2A-2 ********

BY MR. TIEFER:

Q I show you a document that begins on page 725 and continues through 734. My only question to which there might be a quick answer is, have you ever seen it before?

A No.

Q Let me go to a document that you probably have seen. I show you--I would like to continue with the examination, your counsel can show you other documents later--

THE WITNESS: Do you have that?

BY MR. TIEFER:

Q I show you document numbered 774 and ask you if you have seen it before?

MR. VAN CLEVE: I want to be clear on the witness' testimony. He testified he had not seen this document previously?

THE WITNESS: No, I had not seen it. I have not seen this one either.

BY MR. TIEFER:

Q What I am going to try to do because this document has the Airmach head at the top, is try to figure out what documentation in connection with Airmach you are familiar with. So I am going to show you a series of documents until we come up to one that you are familiar with.

A Okay.

Q I show you 775.

A No.

Q I show you page 741 and 742.

A I have not seen that.

Q Pages 738, 739 and 740?

A I have not seen that.

Q Page 737.

A No.

Q Pages 714, 715 and 716?

A No.

Q 719 and 720?

A No.

Q 717 and 718?

A No.

Q 721?

A No.

Q Do you recognize the handwriting?

A No, I don't.

Q In looking at it do you have any idea who would have prepared that?

A I don't. I don't believe it was prepared in this office. It doesn't--it doesn't track with anything that--

Q Well, before we give that up do you have a sense as to where outside of this office it might have been prepared?

A My assumption is that it would have been prepared in Dick Gadd's office.

Q What in the document--are there any indications that would suggest that?

A That was who the NHAO contract was run, at least as far as we were concerned.

Q Other than the subject? Is there anything about the format?

A It is not a format that I have, it is not a format that I have seen.

Q 711, 12 and 13?

A I don't recall seeing this particular letter but the substance of the letter I do recall seeing some numbers one.

Q Then this might be a useful place since we have found the first flash of recognition to back up and say you earlier indicated that you had some working relationship, at least at the financial end with a contract connected with Airmach and NHAO. Could you explain what you were doing and how early that started?

A It started--I want to say it started in late March or April of 1986 when we were attempting to reconcile what we had done for NHAO and to obtain payment.

Q You had earlier said that although you wouldn't want to use such terms, the contract involved someone being stiffed by the government.

. A Yes.

. Q Okay. How did it come about that you participated in an effort to rectify that injustice?

. A Because naturally it fell within my department to collect funds that are due us. We had as I think I testified yesterday, before going to Central America because the area we were flying into was excluded under our insurance policy as a war risk area, we needed to obtain advance permission and pay an additional premium to fly into that area. And this seemed to be causing some problems with it.

. We had a competitor who would fly without charging an additional amount for war risk.

. Q Who is that?

. A Who is it?

. Q Yes.

. A I understand it was Mark Air. I am giving you third-hand information this and I want it to be recognized as third-hand but we understand that they were flying down there without war risk coverage because their coverage was combined in Canada and the Continental United States. We were not willing to do that. We were not willing to put our asset on the line to fly into an area where we did not have insurance coverage.

. Q Do I gather that because you came into it only when that issue arose, that the arrangements on the contracts were being made in some other department?

. A Really I would not be involved in the contracting arrangements.

. Q Whose department would be involved in it?

. A I think a lot of these were coordinated through Bill Langton. My recollection is Bill would give us the number that we needed to bill for that particular flight, although I eventually learned the formula that it was based on, given the number of hours of flying I could go ahead and generate the billing.

. Q Would Dave Mulligan's department have been involved in the contract?

. A No. To the best of my knowledge. I see no reason why they would have been.

. Q Did you have an understanding as to what the contractual relationship was, whether it was directly between SAT and the government or was between the government and Airmach and SAT was a subcontractor?

. A We were a subcontractor in the arrangement. That was my understanding.

. Q And who did you have that understanding from?

. A I think it came out of conversations with Bill. I knew I wasn't billing the government for them. I knew I was billing East, Inc.

. A So that I understand clearly, when you earlier said that someone was being stiffed by the government, was it technically that the government was failing to pay Airmach and how did it come about that you had an interest in that?

. A Airmach per my conversations was not being paid by the government because they had these certain problems with the contracts, i.e., insurance, there were a couple of positioning charges that they were questioning and so forth. Rather than paying the undisputed amount nothing was happening. This led to my conversations with Cindy on it.

. Q Did payments come from Airmach to Southern Air Transport?

. A Actually they came from East to Southern Air Transport in the form of checks.

. Q Do you know what bank those checks were drawn on?

. A I don't.

. Q They would be mailed to you?

. A They would be mailed to us.

. Q And when this issue arose concerning war risk insurance reimbursement, did this cause East to stop sending you checks?

. A The issue actually arose after we had completed the flights. We had performed the service. We were just not getting paid for it.

. Q And just how did East pay you? Was it paying you in increments periodically and they stopped or was there an expectation to get a lump sum payment?

. A My recollection is a little fuzzy on this but my recollection is we got a couple of payments early on, then everything stopped until we finished the flights and then we got one or two large checks through but very much after the fact. Most of the service was performed in the month of March and I think it was May when we finally got the first sizeable payment on it.

. Q A number of these letters as you see have the name of the director of NHAO, Robert Duemling. Did you hear his name mentioned in this?

. A I heard his name mentioned once or twice.

. Q Do you remember anything that was said about him or anything he had said?

. A No, I don't.

. Q Now, the page that you recognize some figures on was page 711. Without getting into the details of the issue, could you generally describe what it is you recognize?

. A I recognized the fact that there was an unpaid balance for insurance. I recognized the fact that there was a positioning surcharge that we were not paid for. I am not sure what the sortie surcharges are. Evidently another item in relation to the February 19th and 20th flights. I recognize that at least the first two are items that I was aware of that were in disagreement.

Q Now, you previously said that you spoke to Cindy Dondlinger in this connection and I am asking you again a question I have asked you before, do you remember anyone else at Airmach or Dick Gadd's office besides Cindy Dondlinger?

A Cindy is the one I would have gone to. Cindy is the one who would have tried to evolve it with MHAO.

Q So you don't recall anybody else?

A There was nobody else that I talked to.

MR. TIEFER: Let's mark pages 711, 12 and 13 as the next exhibit, Exhibit 25.

[The following document was marked as Exhibit RHM-25 for identification:]

******** INSERT 2A-3 ********

BY MR. TIEFER:

Q I show you page 710 and ask if you can identify it or if you have ever seen it before?

A No.

Q Page 708?

A No.

Q Do you recognize the handwriting?

A No.

Q 709?

A Looks like the same person that did 708 but I don't recognize it.

Q I show you some pages, 705 and 706, do you recognize those?

A I have seen this before.

Q Can you identify it?

A It is a telex that actually looks like it was sent in response to the last exhibit, Exhibit 25, when I said I recognized the numbers on there.

MR. TIEFER: Let's go off the record a second.

[Discussion off the record.]

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RPTS BOYUM

DCMN STABNER

. Q Examining the pages 705 and 706, can you explain the background or how you came to be familiar with it?

. A This was in response to, as I said, the prior exhibit. I am familiar with what went into the insurance portion of it because that was information that we went back and obtained from our files or at least I reported to the insurance company.

. Q Who did you provide that information to?

. A Mr. Langton.

. Q Now, are you aware--were you aware that telexes were sent between Southern Air Transport and Airmach?

. A I sent, probably sent one myself which summarized some block hour activity on these flights, so, yes, I am aware that telexes were sent.

. Q I see on the page 705, the second line has the initials AMMC; do they have any significance to you?

. A Yes.

. Q Could you explain their significance?

. A Yes. If you look at the first series of digits, the 292848, is the telex number for Airmach, and AMMC UR is what is called the answer-back which indicates that you, when you file on that telex number that comes up and

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indicates that you have the right party. If you look at telexes we have sent, you will see the same type of thing on it.

Q So it is of significance that you just remember using that particular set of letters for--

A I don't remember what the telex number is for Airmach, but I am telling you that that is what that--that is the telex number and the answer-back which is a standard feature in any telex.

Q Have you ever heard the name American National Management Corporation?

A Yes.

Q In what context?

A I have to say that I think my awareness of that came out of a newspaper article in reference to Mr. Gadd and that being one of his companies. I am trying to think what EAST is an acronym for and I don't recall. I don't know whether that was it or whether it was something else.

Q Other than through the press, did you--

A No.

Q Okay.

MR. TIEFER: Let's mark that as the next exhibit.

[The following document was marked as Exhibit RNM-26 for identification:]

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1957 ********** INSERT *********

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By MR. TIEFER:

Q I show you pages 703 and 704.

A No.

Q Do you recognize those?

A I have not seen them before.

Q I show you page 707.

A Yes.

Q Can you identify it?

A Yes, this is a--looks like a handwritten note that I prepared and it looks to be summarizing the expenditures that we had made to date. In fact, looking at it, I think it would probably tie back into one of the prior exhibits, I don't remember what I copied, David.

MR. KIRSTEIN: This one, exhibit 24.

THE WITNESS: Yes, let me take a look at this. I am going to take that back, it does not. It had to be sometime after that.

BY MR. TIEFER:

Q Well, if you--

A Anyway, it was a handwritten note that I gave to Mr. Langton at his request wanting to know what we had expended. I don't know what he has--he has a date of 6-30-86 on it. That is not my handwriting.

Q When you say what you had expended in connection with what?

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. A With Miami base maintenance or parts purchases for support of the Central American aircraft.

. Q Would all those expenditures have been ACE related in your accounting system?

. A Yes.

. Q Okay.

. A What we are really saying is we need some money, guys, we are supporting your operation and that is not the deal.

. Q Do you remember why this came up or when this came up or why it came up when it did?

. A It probably came up because in passing Bill in the hall, I had said in my own mind, we are getting close to the wire or we are over it and we need some more money in order to keep the funding up on this.

. Q I think it didn't come down from above, it came up from yourself?

. A I think it may very well have come up from me.

. Q Okay.

. A As long as I owe you money, I am in a pretty good position, or as long as I am working ahead of the game, I am okay; but when I let you get ahead of me then I got a problem.

. That is what happened and at this point in time we do have a problem because it never was cleared up. It

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probably never will be cleared up.

MR. TIEFER: We are off the record.

[Discussion off the record.]

BY MR. TIEFER:

MR. TIEFER: Back on the record.

BY MR. TIEFER:

Q We are looking at page 707. I have asked you before, perhaps studying more now, you can have any sense at all as to whether you prepared this? I realize the date of June 30 you said is not in your handwriting, but as to whether this would have generally been prepared in or around June of '86?

A It was prepared in and around June of '86. It was prepared--going back to the prior exhibit, it was prepared after June 3 but sometime before the end of June.

Q Now, I don't want to--

A Not the last exhibit.

MR. KIRSTEIN: Exhibit 24.

MR. TIEFER: Documents 924 through 932.

THE WITNESS: Right.

BY MR. TIEFER:

Q And that you testified the date of June 3 on that had indicated that it was probably prepared by you June 3 or at least a number of the pages in it were prepared June 3?

A Well, yes.

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. Q I am going to show you again exhibit 6, page 963. I do not wish to redundantly question you. I have asked you several times if you could place that as to why it was prepared. I bring it up only because that has a date of June 86 and we have looked at two other handwritten documents that you prepared that seem both to have been June 86. Can you explain that in connection with these two documents? Would there have been concerning creation of these other two documents that would have lead you to create that ACE Iberoamerica recap.

. A It may have been in an outgrowth, and again, I am speculating.

. Q I am looking to refresh your recollection.

. A It may have been in response to this which says where are we on this side, maybe we ought to prepare something on the Panamanian activity and just see where we are in that and what has happened to recap it.

. This particular document actually was never--

. Q You mean the recap of Iberoamerica?

. A Yes. That was never passed on to anybody.

. Q If you look back at the same time at page 707, it says received to date $375,000.

. A Right.

. Q Would you have had any need to prepare the Iberoamerica recap in order to know exactly how much you had

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received?

. A No. One excluded the other. They were two separate.

. Q You have testified that at some point a change occurred between Dick Gadd seeming to be in charge and Robert Dutton seeming to be in charge. Was that during this period that these documents were prepared?

. A I can only surmise by what I saw changing in what happened, let's say, in Panama, and it seemed to be in June that that change took place.

. Q I am seeming to refresh your recollection. Is there any possibilities that the changes you saw in Panama were part of the reason that you caused you to determine to check on whether there was a balance building up that they owed you?

. A No.

. Q Those were completely unrelated?

. A They were completely unrelated.

. Q But you roughly contemplate use in the same month?

. A Yes.

. Q Okay.

. MR. TIEFER: Let's mark page 707 as the next exhibit.

. [The following document was marked as Exhibit RHM-707 for identification:]

2083 ********** INSERT *********

BY MR. TIEFER:

Q Let me ask a final question or two. Do you recognize the handwriting in the lower left corner?

A Yes.

Q Whose is it?

A Mr. Langton's.

Q It says, what does it say?

A It says, looks to me like it says, ''Pass to B. Dutton on phone.''

Q Did you have any knowledge at the time that the figures you were preparing were being passed to Bob Dutton?

A I did not know specifically who they would be passed to.

My assumption was that they would be passed to somebody because we needed more money if we were to continue to support the operation.

Q Do you know whether there was an outcome to this? Did Mr. Langton tell you money would appear?

A I would have to go back and look but I am sure that we would have received money because we did continue the operation.

MR. TIEFER: This is a convenient stopping point. Well, the deposition to clarify what will happen here, I will turn over the examination for today after an adjournment here to George Van Cleve. As far as the examination that I wish to conduct is not completed at this point, and may be continued at a later date subject to further discussions. We will now break.

[Luncheon recess.]

[12:15 p.m.]

A F T E R N O O N S E S S I O N

EXAMINATION BY MR. VAN CLEVE

Q We are resuming the deposition of Robert Mason pursuant to subpoena under House Resolution 12.

By way of introduction, although we spent a fair amount of time together the last couple of days, I am George Van Cleve, the Deputy Republican Counsel for the House Select Committee, and I believe you know my colleagues from the House and Senate.

I have what I hope will be a short series of questions for you based upon your testimony and the documents you have previously produced. I am going to try not to be repetitive. I am going to try and be brief so if I am not as clear as I should be I hope you will ask what I have in mind and if I skip around somewhat it is because I am trying to tie up what seemed to me to be some loose ends and make sure I understood some of your prior testimony. But if I get to a point where I am jumping around too much, just let me know and I will try and walk through things a little more in detail.

I guess to begin with, I have just one, a couple of brief biographical questions. We did talk about your employment and educational background but just a couple of things, partially out of curiosity. You mentioned that you served in the Navy?

. A Yes.

. Q What were your years of service?

. A 1957 and 58.

. Q Two years?

. A Yes.

. Q What sort of work did you do there?

. A I was on a destroyer.

. Q What were your duties?

. A CIC officer.

. Q Could you tell us what CIC means?

. A Combat Information Center.

. Q What sort of things--

. A This goes back a long time.

. Q Sure.

. A CIC was, I guess, kind of the ~~never~~ nerve center of the ship where all the radar information was displayed, plots were displayed, track was kept of other vessels or other aircraft that were in the area.

. Q The communications center?

. A Communications center is part of it.

. Q So did you have communications duties?

. A I am not sure what--

. A Basically what I am interested in knowing is whether or not you had either access to or responsibility

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for intelligence information?

. A In the context I think that you are asking the question, I was responsible for encoding and decoding it. Messages that came in by cryptographic form.

. Q Thank you. If I understood your testimony yesterday correctly, you mentioned that you had worked with Bill Langton at Evergreen Airlines?

. A That is right.

. Q Is it airlines?

. A Evergreen International Airlines.

. Q How long had you flown Mr. Langton before that, all told?

. A Eight or nine years.

. Q And would you describe your relationship as a business relationship, personal friends, also, or what?

. A It's primarily a business relationship but we don't get together socially if that is what you are asking.

. Q Okay. Fair enough.

. A Occasionally, but, no.

. Q Okay. Turning to a somewhat separate subject and again so I sort of have this clearly in my mind, in November 1985, you created a Panamanian company, November 8, known as Amalgamated Commercial Enterprise. We will call it ACE for short, if that is all right?

. A Yes.

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Q I want to phrase this in a way that you will understand and try and be as clear as I can. I don't have this question quite as clear in my mind as I might like. Did ACE provide all of the funding for the Central American operations that you were connected with in any way? In other words, was there any other entity or any other individual who provided funding other than ACE?

A That is--you are asking a very--what appears to be a very simple question that has got a complex answer.

Q Help me out.

A I say that because ACE was created number one to be a bank account.

Q Right.

A That was the reason for existence. ACE was created initially to purchase aircraft and the first two caribou aircraft that were purchased were purchased through funds that came to ACE.

Q Right.

A ACE through the month of June did provide the vehicle for operating funds for the Central American operation. After June, where that came from, I don't know. It didn't go through ACE, it didn't come through Southern.

Q I see. Let me just stop you there for a minute. There are disbursements, I have in front of me exhibit 6, which is the disbursement record for the ACE Banco

Iberoamerica account. There are disbursements amounting to about $14,000.

A Can I?

Q Sure.

A There was a surplus in the ACE account in Panama. There was a deficit--and we talked about deficits on the maintenance account up here.

Q Right.

A The natural thing is to transfer money from Panama to Citizens and Southern to cover what is owed up here.

Q Okay. So if I understand--

A That was done pretty much on conversations between Bill Langton and myself. I have got this money down there, you know, why don't I bring it up here and it will help carry that operation.

Q Okay.

A If you want me to talk about the $45,000 which was the last one, it is kind of strange because all of a sudden I had a $46,000 wire transfer show up in the ACE account that we knew nothing about. Didn't know why it was received.

Q You are referring to--

A We were not expecting it. The last one you see.

Q October 22, that transfer?

A Yes. I wasn't expecting it and Bill had no idea why we received it, but it appeared to be--that it should have been channeled to ACE.

. Q It does look at though from the recap that you did that it balanced out that account.

. A Yes.

. Q Okay. Just to recap briefly what I think you have just told me. ACE was a bank account. ACE provided the funding for the purchase of some aircraft, it did provide the funding for the operational support for the Contras through June '86. After that, you have ~~k~~no~~w~~ knowledge as to how the operational support funding was provided.

. A I have no knowledge of who was providing payroll dollars and that type of thing. We were through our petty cash account supplying some fuel money for them down there as people would go down, they would take an amount of cash with them.

. Q Some other entity was supporting them?

. A Some other entity was supporting it.

. Q It did not come through ACE?

. A It did not come through ACE.

. Q Did not come through Southern?

. A Not come through Southern. We continued to provide maintenance support.

. Q If we wanted to be confident that we knew about all of the funds that would come in that you then flowed through to ACE or for ACE accounts, if we took the wire transfers into Banco Ibero and the wire transfers into C&S and combined them we would have all of the funds that came into ACE.

. A You would have more than came in because there were some transfers from the Panamanian account to the CC&S account. You mentioned the $140,000. There was I think another $75,000 that went and then there was one for $53,000 and one for $11,000.

. Q Okay.

. A Which are going to be repetitive.

. Q I follow you. So in other words, we can get a rough sense of the amount of money that did come into ACE?

. A Yes, exactly.

. Q That represents, if I understand you correctly, represents all of the funds that were paid through to your organizations for the services it provided to the contras both in terms of planes and in terms of maintenance?

. A That is right.

. Q You didn't receive payments from any other source?

. A No.

. Q For those operations?

. A No, that is correct.

. Q Thank you.

. One thing that I have been sort of wondering about and I confess to not, I am not an accountant, there is a lot of this I don't understand, and I think, by the way, you have been very helpful in explaining the documentation to us.

. I know that one of the cash receipts sheets that we have talked about--and I can show it to you if you like, but I think you can remember the transaction, the transfer in one $242,000, and a distribution was of $150,000 to ACE?

. A $92,000.

. Q $92,000 to the flight account.

. A To the flight account.

. Q There does not appear to be a deposit of the $150,000 in the Banco Ibero account contemporaneous with that. I was wondering why not?

. A Because it went to C&S. That was a C&S transaction. That was not a Banco Iberoamerica account.

. Q But the funds don't show up in the ACE account.

. A No.

. Q That is because they went through Southern Air?

. A They came directly to Southern Air.

. .Q That is what I thought. That would be the case where if anything does not show up in the Banco Ibero account that comes in through C&S it would show up on Southern Air's books?

. A Yes, right.

. Q Thank you.

. I would like to go back just briefly if I could to a couple of invoices that you were shown previously that have now been marked as exhibit 23. These are Southern Air documents, 735 and 736.

. A Yes.

. Q Why would invoices like this be created, to your knowledge?

. A These invoices say, ACE invoice to Udall research.

. You have all the stock in your possession. You have the power of attorney. I have to assume that without your direct authorization no one would be in a position to send an ACE invoice to anyone else, is that correct, legally speaking?

. A Legally, that is correct.

. Q So what is going on here? Surely you must have some knowledge of this transaction.

. A As I say, I can identify the final number.

. Q I follow.

. A And say that that number shows up in the ACE bank account in Panama, okay, and just looking at it what it is is the funds for the operation, payroll, what have you, that were being--on my assumption it's being billed out of Dick Gadd's office?

. Q But this was created without your authorization?

A That is right.

Q And without your knowledge.

A Without my knowledge.

Q Even though copies of these documents were produced from your company files?

A I did not--I have not seen these before.

Q I understand that but I am correct and Counsel can help us for the record here. These documents were produced from Southern Air's files, were they not?

A Yes.

MR. KIRSTEIN: Right.

BY MR. VAN CLEVE:

Q But you have not seen them, they were created without your authorization and without your knowledge? They purport to be ACE corporate invoices to another corporate entity, isn't that so?

A Yes.

Q And I am really looking for information here, why wouldn't someone want to create ACE invoices to another corporate entity? What would be the purpose of that?

A The purpose would be to transfer this amount of money to cover another outgoing wire transfer from the Panamanian account.

Q Okay. I noticed that there appears to be a substantial markup if one just looks at the invoice and without regard to your knowledge of the invoice, it does appear there is an entry that says G&A and profit and then there is an amount, an O&M and hours and the net effect is to, I think it is fair to say, and you would agree, that it substantially increases the bottom line.

. A I can't comment on that. Your comment is correct, it does substantially increase the bottom line.

. Q So it looks as though--correct me if I am wrong, we are both looking at this, not that you crated it--but just to someone who was looking at this document it looks as though ACE is charging a very substantial markup on its services before it is billing them to Udall research, is that mistaken?

. A Well, I think it can be a mistake. If you look at some of the documents we looked at for maintenance here, you are going to see that I have marked up parts and you are going to see that I have marked up services.

. Q Right.

. A Okay. But what I have charged through, the dollar amount that you see is the actual cost of that part. What you don't see in there is the administrative services that I, that go along with that.

. Q I follow.

. A The purchasing people I have tied up, the accounting people I have tied up, the shipping people I have tied up.

Q I understand precisely.

A And I can't, because I was not a party of creating that, I can't tell you how much of that in here--

Q I follow but let me just put it to you another way. ACE was a bank account.

A Yes.

Q Normally speaking, we don't attribute large amounts of administrative overhead and services charges to bank accounts, do we?

A To bank accounts as you are saying it, no. To activity, yes.

Q Sure, but if it was anyone's activity here it would be your corporate activity, wouldn't it?

A Well,--

MR. KIRSTEIN: Do you mean by you, him personally or Southern Air?

MR. VAN CLEVE: Southern Air.

BY MR. VAN CLEVE:

Q I understand and I am not suggesting it is not entirely legitimate for a company to charge administrative overhead and so on. What I am confused about is here we have this Panamanian company, it is a shell, you know, using it as a bank account to run money through, all of a sudden we have an invoice that suggests it is not in fact a shell.

that it is an entity out there that has employees for which they feel entitled to charge sort of a normal corporate administrative overhead and service markup.

I just frankly am confused.

A Okay. Let's approach it this way. Let's say that, say Corporate Air was the operating entity because that is who I made the transfers to out of the account.

Q Okay.

A It would be proper for Corporate Air to invoice ACE and ACE in turn to invoice, because this is the vehicle to get it there.

Q And I think it would be. I am just sort of confused that it is done the way it is.

A I can't answer that question.

Q Okay.

But to your knowledge, no one ever attempted to suggest that part of the funds that came into the ACE account should be diverted for purposes other than simply paying legitimate expenses of this operation?

A To the best of my knowledge, that is true.

Q Thank you.

A If you look at--and I welcome you to go through all the documents on that Panamanian account, every dollar that came in there is accounted for either through supporting documentation on outgoing wires or bank charges or it is there as the small balance that remained down there today.

Q Now, I appreciate what you are saying and this just really is confusing to me and I thought I would ask what you knew about it.

MR. KIRSTEIN: Can I just talk to him for a second?

MR. VAN CLEVE: You bet.

[Witness confers with his counsel.]

MR. VAN CLEVE: Would you like to have your client make a statement?

MR. KIRSTEIN: I just thought it would help clarify the answer.

THE WITNESS: The ACE account in Panama was a pass-through, the funds would be transferred into there and then they would be disbursed as directed.

BY MR. VAN CLEVE:

Q That is how I understood your testimony and I simply wanted to make sure it was consistent with the documentation that we have.

If I understood your testimony about that ACE account correctly then, under no circumstances did ACE as an entity ever receive profits?

A That is correct.

Q Did ACE ever have any other receipts other than airplanes, such as real estate, other bank accounts?

A No, no.

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. Q All right.

. A None.

. Q The next couple of questions again are just to see if you could help me out. I have never set up a Panamanian company. Based on your testimony, is there anything that you did with the ACE account that you could not have done with a Delaware shell corporation?

. A Probably not, but--

. Q Okay.

. A That is a--

. Q You know, as I say, I have never set one of these up. I am not an expert. You seem to be pretty familiar with the Panamanian banking laws, during your testimony yesterday. If you could have done all of these activities with a Delaware shell, what was the purpose of setting up the Panamanian company?

. A The purpose was they wanted a offshore banking arrangement.

. Q Because?

. A I don't know what their reason was.

. Q Your testimony is that you do not know why they chose a Panamanian company as opposed to a Delaware company, for example?

. A Well, the bank--they wanted the company set up offshore, in other words, they didn't want to use a domestic

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corporation to run this through.

. Q What I am really trying to understand is why not?

. A Why not?

. Q Yes.

. A I can tell you what my assumption is. My assumptions is that the Panamanian banking laws are very strict, they are perhaps more strict than the Swiss. And everything is done by numbered accounts.

. Q So you think that the people who were providing the financing hoped to gain a greater degree of concealment for their activities than would have been possible under the domestic banking laws?

. A I am not sure, 'concealment'' is the word I would use but it is harder to, certainly harder to trace a transfer into or out of a Panamanian bank than it is out of a U.S. bank.

. Q I see. thank you.

. Any other reasons you think might have dictated that choice?

. A The only other reason I can think of is that maybe Panama has some proximity to the area down there and if they were going to move operating funds it might be easier to move it out of a Panamanian bank to other central American countries than out of the U.S. There are some /restrictions that you run into or obstacles that you run into in doing that.

. Q Thank you.

. Along the same lines and out of ignorance on my part, what would be the point in having ACE take title to an airplane, for example, and immediately transfer title to another company? Why wouldn't it make as much sense for ACE to hold the title?

. A ACE was not set up to hold receipts.

. Q Okay.

. There is nothing in the corporate charter that would have precluded it?

. A No, the corporate charter is fairly broad.

. Q I got that impression.

. I think your testimony yesterday was that the company, Southern Air Transport, did not have any secure communications equipment, is that correct?

. A That was my--that is the comment that I made.

. Q May recollection is that you did acknowledge that at least at one time William Langton had equipment to allow secure telephone communications?

. A Yes.

. Q And you all hold contracts that require your employees to be cleared for classified information?

. A Employees and officers.

. Q Okay. Do you yourself have such a clearance?

. A Yes, I do.

. Q How would you communicate with the necessary officials concerning matters that are the subject of those contracts without such equipment?

. A Which?

. Q If it's your testimony that you have no secure communications equipment but you do hold contracts that require security clearances for your employees, how do you communicate with people?

. A We have to have security clearance for say the log air, out of the log air and quick trans contracts because we have--

. Q How do you make secure communications?

. A There are separate telexes that go on the log air and separate ones for the quick trans.

. Q Those are secure communications facilities, or not?

. A I wouldn't call them secure in the sense that I think you are asking the question.

. Q I see. so your testimony is, just again so I am clear on it, that you have no other means of secure communications?

. A Maybe I ought to say to the best of my knowledge we have no other. I am not in the operations side of things. I am not aware of any.

. Q Okay.

. Correct me if I am wrong about this but my recollection is that the documents that your company has supplied to us show that your approval is required for a very broad range of corporate transactions, things as small as deciding to whom a particular hotel bill for $30 should be assigned, how the accounting should be assigned. Yet at the same time I think the documentation shows that you are involved in arranging bank financing and similarly broad and sort of general transactions. Is that normal for the controller of a company to be involved in both ends of things that way?

. A I think I know where you are picking up my signature on certain documents. Anything that had to do with ACE again because I wanted to know what we were incurring, and because we were required, for hotel bills there is a mixture of types of personnel on them, we want to know who is, who is staying there and who is being charged so that's why you are seeing my signature on those.

. Q But in other words, you are saying, your testimony is that it is only in connection with ACE matters that your approval is required for that?

. A For normal matters, no, it is not.

. Q That is the sole--

. A That was the sole reason for getting into the smaller dollar amounts.

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Q But that is the sole program within the company where that would be the case?

A Yes, unless it had to do with my department.

Q Okay.

I think this is probably best left for Mr. Mulligan's deposition but I will ask you, the company produced a whole bunch of aircraft log sheets to us. I can't make any sense out of them at all. I assume he can explain them to us?

A I would hope he could.

Q Okay.

A He should be able to.

MR. VAN CLEVE: Those are all the questions I have. At least in behalf of the members I represent I would like to thank you for your time and attention and appreciate it.

THE WITNESS: Okay.

MR. VAN CLEVE: Counsel for Senate has a statement for the record I believe.

MR. TIEFER: No questions

MR. SMILJANICH: My name is Terry Smilijanich. I have been appointed associate counsel for the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan opposition. I have been here for the past day and a half as an observer. I haven't asked any questions and I want to make it clear that the Senate Committee

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reserves the right to in connection with the investigation to conduct whatever depositions it feels are necessary including if it so desires the deposition of Mr. Mason.

Having said that, let me add that I appreciate the fact that Southern Air is a private company, and Mr. Mason as a senior vice president has a full agenda for that company, and we certainly don't intend to be unnecessarily repetitive or re-plow the same ground in asking questions if indeed we want to depose Mr. Mason.

I would request that if the deposition is transcribed, if Mr. Tiefer would make a copy available to the Senate Committee if that is possible. I don't know what the ins and outs are but if possible we would like to get a copy of the deposition.

That is all I have to say for the record.

MR. TIEFER: Then at this point, the deposition is adjourned to the subject to the statements made on it. Thank you.

[Whereupon, at 12:50 p.m. the subcommittee was adjourned.]

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I have read the foregoing deposition transcript, and it is true and correct, except for noted changes, if any.

Robert W. Mason

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CERTIFICATE OF NOTARY PUBLIC

STATE OF Florida)
(To-Wit:
COUNTY OF Dade)

I, the undersigned, a Notary Public in and for the County and State aforesaid, do hereby certify that the witness, Roger H. Mason
(Name of Witness)

15400 S.W. 87th Ct (Address), Miami (City),

Florida (State) 33157 (Zip), whose sworn testimony appears in the transcript of proceedings attached hereto, was first duly sworn by me and placed under oath on this 2nd day of February, 1987, and has on this same date acknowledge the same before me in the State and County aforesaid.

Given under my hand and seal in the City of Miami, and State of Florida on this 2nd day of Florida, 1987.

Douglas H. Mason
(Notary Public - signature)

DOUGLAS H MASON
(Name printed)

8801 FONTAINEBLEAU BLVD
(Address printed)

Miami Fla. 33172
(City, State, and Zip Code)

My commission expires:

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NOTARY PUBLIC STATE OF FLORIDA
MY CO[illegible]

[redacted]

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by D. Sirko, National Security Council

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DEPOSITION OF ROBERT H. MASON (RESUMED)

Wednesday, February 11, 1987

House of Representatives,
Select Committee to Investigate
Covert Arms Transactions with
Iran,
Washington, D.C.

The select committee met, pursuant to call, at 10:00 a.m., in Room B336, Cannon House Office Building.

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MR. TIEFER: Let's go on.

I am Charles Tiefer, Special Deputy Chief Counsel for the House Select Committee to Investigate the Covert Arms Transactions with Iran.

The witness is Robert H. Mason, who is the witness today, and if the other counsel will identify themselves for the record.

MS. NAUGHTON: I am Pamela Naughton, from the same ~~sub~~ Select Committee.

MR. BUCK: Kenneth Buck from the same Select Committee.

MR. KIRSTEIN: David Kirstein, from Beckman and Kirstein, representing Southern Air Transport.

MR. TIEFER: This is resumption of a deposition of Mr. Mason taken on February 2 and February 3. Because that was taken in a different state, I will ask the witness be sworn again by this notary.

Whereupon,

ROBERT H. MASON [Resumed],

was called as a witness for the Select Committee and, having been duly sworn by the Notary Public, was examined and testified further as follows:

EXAMINATION BY COUNSEL FOR THE SELECT COMMITTEE

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BY MR. TIEFER:

Q Mr. Mason, you have provided me today with a number of new schedules which I believe you have prepared since the last time we talked. Is that correct?

A That is correct.

Q Would you go through each one? I show you a document that is numbered SAT-1822. As with the previous deposition, where we give numbers, they are all SAT numbers, and ask you if you can identify it.

A Yes. This is the first page of an analysis of the funds through Banco de Iberoamerica. The top portion shows funds that were transferred to the account. The bottom portion shows the outgoing funds.

Q Is this page one of a two-page document?

A It's page one of a two-page document. Page two is a continuation of the outflows from the account.

MR. TIEFER: If the reporter would mark this as RHM Exhibit 27.

[RHM Deposition Exhibit No. 27 was marked for identification.]

******** COMMITTEE INSERT ********

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BY MR. TIEFER:

Q I show you a document that is numbered SAT-1825 and ask you if you can identify that.

A Yes. This is a document I prepared to show the funds coming into Citizens & Southern, first for purchase, or a portion of the purchase of the Jet Star. The second part being a reflection of the C-123 transaction where the funds were passed through Southern.

MR. TIEFER: If the reporter would mark that as the next exhibit.

[RHM Deposition Exhibit No. 28 was marked for identification.]

******** COMMITTEE INSERT ********

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BY MR. TIEFER:

Q Finally, you have produced a document 1824. Can you identify that?

A Yes. This is a document that shows fund inflows to Citizens & Southern Bank that were sent to Southern for maintenance and operational support of the Central American activity.

MR. TIEFER: If the reporter would mark that as the next exhibit.

[RHM Deposition Exhibit No. 29 was marked for identification.]

******** COMMITTEE INSERT ********

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BY MR. TIEFER:

Q Mr. Mason, with respect to document 1824, Exhibit 29, can you clarify whether those wire transfers all concern the maintenance, support of the Central American operation, or whether some or all of them or parts of some of all of them concern something else or were distributed for something else?

A The total amounts that you see listed on Exhibit 29, document 1824, are the amounts that applied to the maintenance and support of the Central American activity. They may have been part of a larger wire transfer. If I could give you a ''for instance''. There is one that's shown on 6-18-86, wire transfer from Hyde Park Square Corporation for $150,000. If my memory serves me right, that was part of a $242,000 wire transfer that came in

Q I am hopeful now with this we can see if we reached a stage of completeness about the description of wire transfers.

Let me ask if we took together the exhibit you just described, document 1824, concerning maintenance and support operations for Central America, and Exhibit 21, pages 1821 and 1822, a recap of [redacted] and Tel Aviv activity that you previously produced, could you tell me what the two of them put together constitute? Do they constitute some complete listing of something?

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. A In the context that you are asking the question, no. If I understand--maybe I ought to ask you what you are really asking me, because if the question is--

. Q I asked a series of questions earlier, the previous date, about whether we knew about and had a listing of all the wire transfers that one way or another had ultimately come to Southern Air Transport for the--what we now call the Iran matter and what we now call the Contra matter, and at the time clearly there was no schedule that would give all those wire transfers.

. A These two together do not. You have to take document 1825 into account also, because those were funds that came to Southern.

. Q All right. If we took--

. A If you took all three of these together, to the best of my knowledge, you have all funds that came into Southern.

. Q How would you describe all funds that came into Southern Air Transport, for what?

. A For--basically for four parts of the scenario. One was for the [redacted] Tel Aviv activity; secondly was for the ongoing maintenance and support operation; third was for the purchase of the Jet Star, or a portion of the purchase of the Jet Star; fourth was the funds that passed through Southern for the C-123 transaction.

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MR. KIRSTEIN: I think we apparently have page 1822. The one we marked this morning, the first page as 27, why don't we make that 1822(a)?

BY MR. TIEFER:

Q So the first page of Exhibit 27 is now 1822(a).

I am going to try to clarify in my own mind some preliminary matters. My ultimate goal today is to pick up chronology you started the last day and to try and take it all the way through the end. You had mentioned when you started with Southern Air Transport in August of 1985, you were the Controller, and Tom Crummey was Senior Vice President for Finance.

A That is correct.

Q When did he leave the company?

A He left approximately September 1.

Q And you did not become Vice President until March 1986?

A That is correct.

Q What was the situation with respect to that post in the interim?

A Basically I did the job.

Q Were you Acting Vice President?

A My title still was Controller-Treasurer and Secretary of the company.

Q Could you give some background? Did it come about you started in August because his retirement was imminent? Is that a coincidence?

. A It was a coincidence. There was no--at least when I interviewed for the job in June of '85, there was no indication at all that Tom Crummey had any intention of leaving. The day I arrived in Miami, I got a call from him saying ''Bill Langton and I would like to talk to you, why don't you come in?''

. I came in, and at that point in time Bill told me that Tom had decided to leave the company, retire.

. Q Did that seem abrupt to you?

. A It came as a shock to me. Actually, the scenario that I envisioned was one that would have really helped the company at that time because they were undertaking a 707 expansion, and by working in the area, knowing Tom was not strong, and Tom working the area of banking and sharing the relationships and that kind of thing where he had strings would have complemented each other.

. Q Did he stay on the job while you started for any period of overlap?

. A He was there for a month.

. Q When in August did you start?

. A I started the 5th of August.

. Q Did you ever get any more explanation for why he had decided to retire at that particular moment?

. A The only explanation that I ever received was that he had been thinking about it for a while, and this seemed like a good opportunity for somebody coming in that had airline experience, that would step in and take over, and he wasn't leaving the company in a void.

. Q Did that mean that during the month of August you had some expectation that you would ultimately be taking his post rather than simply staying in the post which you had been hired?

. A I think that my expectation when I came to the company was that if Tom ever left, I would hope that I would be considered for the post.

. Q Last time you went through a considerable explanation, which was helpful, about how disbursements by the company are booked. I would like to review it to see if I have the steps straight.

. A Can I preface this--I have not seen the transcript, and I am really going to have a problem with things taken out of context from the last session and questions asked without being able to see where--I will go along as much as I can on it. If I come to a point where I am uncomfortable--

. Q I understand. I imagine you particularly would desire not to be asked why a certain quote you gave last time--

. A Exactly.

. Q I don't have an expectation I am going to ask you questions like that.

. A Okay.

. Q I may ask myself why I asked a certain question last time.

. A I may ask myself why I gave a certain answer.

. Q If there is such a thing as the way a normal bill or invoice is handled by the company when it's received, does it go through this sequence? When the invoice is received, say it is an invoice concerning flight operations, it is given to Flight Operations for review. Flight Operations will stamp their approval, and then they will indicate what kind of an item it is where one possibility is it's a pass-through item. Is that a sequence that might happen for an invoice?

. A Basically, there are a couple points that are left out, but I don't think they're important in the scenario. All invoices are received in Accounting initially and are distributed out of their various departments.

. Q What is the other option besides being a pass-through item? What else might--a pass-through type of item, what type of--

.- A It could be an expense, it could be a capital item that was going to be capitalized, basically the categories are going to fall into--the overwhelming majority of the

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items that come through are expenses.

Q What is an expense as distinguished from a pass-through item?

A Well, an expense is something that is going to go into the profit and loss statement of Southern Air Transport. A pass-through is a third-party charge or an agreement or a contract or what have you. We are paying somebody else, we will charge that through to them and be reimbursed.

Q Once one of the departments has indicated whether it is a pass-through item, an expense or any of the other possibilities, it then goes to the Accounting Department which will put an account number on it?

A The account number might be put on by the Accounting Department. It might be put on by the Routing Department. We are in the midst of a transition on that right now.

Q Now, on some documents I have seen the digits 14202, on some documents I have seen the digits 14202 with four zeros after them. Can you tell me--

A They're one and the same. Somebody got lazy.

Q If one speaks as 14202 for pass-through items, that would be correct?

A It would be the same as 14202 with four zeros after it.

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. Q Once an account number is put by Accounting on the invoice, information from the invoice is then keypunched into the computer?

. A Yes.

. Q And the computer then posts the information to the general ledger?

. A Yes, sir.

. Q Does the general ledger exist as a written document other than in the computer? If you understand my question.

. A Yes.

. Q Can you explain where it is and what form it takes?

. A It takes the form of maybe a printout from the computer that exists in our office.

. Q How often is that printout made?

. A As a final document, once a month. There might be preliminary runs that are made as we are checking various accounts.

. Q Do you keep the monthly printouts?

. A Yes.

. Q Do you know how far back you keep them?

. A Years.

. Q Back before 1984?

. A Yes.

. Q Is there any other regular computer printout, such as parts of the general ledger?

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. A No.

. Let me take that back. Say there is an accounts receivable section that is printed out in summary form, which would be a portion--yes, a portion of the general ledger. In other words, what is in there would also be in the ledger, and it would be in more detail than perhaps is in the ledger.

. Q Is there a printout or some other document by account, named by account?

. A Yes, sir.

. Q What is that?

. A It would basically be the general ledger.

. Q So--Is that done regularly for all accounts or for some accounts?

. A When you run the entire general ledger each month, you get an account, a listing account by account of what your account balances are.

. Q I understand. Do you do separate runs of particular accounts?

. A No. Any analysis we do--I think maybe this is the question you are asking me, and I probably shouldn't--David is going to kick me. Remember the big document that we couldn't--

. Q I recall.

. A That's an analysis that was done monthly of the

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pass-through account. So we don't pull that off the computer per se. We have no way of pulling it off the computer. We have to go back in and break it out into its various components.

. Q When was that prepared?

. A It was prepared on a month-by-month basis.

. Q Was it being prepared for the pass-through account contemporaneously?

. A Yes. At the end of the month, you would go back, and you would do January, when you close January's books, you do February; when you close February, right on through the year.

. Q One of the columns on the document you are talking about was for ACE.

. A Yes.

. Q Were you preparing such breakouts of the pass-through account before there was an ACE?

. A Yes. You needed to know what was in there.

. Q And copies of that are also retained by the company, a breakout of the pass-through account?

. A Yes. I don't know how far back those go. Those are working documents and may not go much more than a year or two.

. Q With the discussion of the general ledger, we may have reached a convenient stopping point.

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[Whereupon, at 10:50 a.m., the Select Committee

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[12:30 p.m.]

BY MR. TIEFER:

Q Mr. Mason, you just described some aspects of the way disbursements are booked up to the posting and general ledger.

Let me back up. I had asked you about how invoices are handled. If I understood correctly what you explained previously, there are certain matters, such as payroll summaries, for which there is no invoice. Could you take me through a similar process by which the paper work moves for those items?

A The payroll is developed from two sources. There are two payrolls. One is a biweekly payroll which covers the hourly people. Generally that input comes in on a time card, it is calculated, put on an input form, and it is processed by an outside service bureau.

There is also a semimonthly payroll which covers salaried personnel. That is updated twice a month and goes to the outside service bureau for processing.

Out of that, out of the payroll journals that come back for the month, a journal entry is prepared that is used

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to post the payroll entries to the general ledger. And when I say a journal entry, basically what it is is distributing it to the various departments and cost centers and so forth that it belongs.

. Q Who prepares the journal entries?

. A It is prepared by the manager of payroll.

. Q And are other items besides payroll handled by the journal entry method?

. A Sure.

. There are--it could be prepared by anyone on the Accounting staff, but generally it is the Chief Accountant and the Assistant Treasurer who do the bulk of the journal entries. We do not have our fixed assets on the computer. Therefore, those are done manually, and the journal entry has to be prepared on that. Any corrections that need to be done have to go in my journal entry. Any accruals that we're doing need to go in by journal entry.

. The revenue summaries go in by journal entry. That is an example. I am sure I haven't touched on everything that goes in by journal entry.

. Q Speaking about the Iran and Contras matter--and I am not asking you to guess at what's in 2,000 pages of documents, so I am not going to ask you for an answer that covers everything--what kinds of things went in by journal entry?

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. A If you are looking on the Iran side, what would have gone in my journal entry are the revenue summaries. In other words, you have the individual cash sheets. Those would have been summarized on a monthly basis and posted to flight revenue via journal entry.

. If we had things like--and I am still sticking to that side of it--if we had things like fuel charges, ground handling charges, maybe even certain maintenance charges that we feel did not come through as invoices in the month in which the activity took place, we would make an accrual for those and that accrual would have to go in through a journal entry. Whether that happened in any of those flights, I don't know.

. On the other side, you have a file of all the journal entries that went in, again on the big spread sheets, on the pass-through account. Anything that would be charged to that--I think that is the last page there--anything that would be charged to that would have gone in. We didn't have an invoice. It had to go in by journal entry.

. Q If you would examine your copy of Exhibit 7. What I understand you to be saying is that most of the items that appear on here came as invoices, but there may be a few that came by journal entry.

. A That is correct.

. Q Perhaps I should go through the process for--I am

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speaking about disbursements before, but you started to tell me about revenues as well, receipts as well. Perhaps it is a more orderly way if I ask you about the process by which revenues are booked, and if that--am I correct, some booking of revenues appears on Exhibit 7?

. A The offset to the revenue would appear on--is that--I guess it is Exhibit 7. In other words, there's two sides to any entry.

. Q Instead of my calling this Exhibit 7 all the time, what do you call it?

. A It is an account analysis of the pass-through account.

. Q I am not so much interested in the offset of revenues as actual revenues themselves. Let's--

. A You have the revenues on the daily cash receipt forms. Every entry has to have an equal offset or your books are out of balance. It has to go some place.

. Q Let's go in an orderly fashion. Suppose we take money that comes in by advice, a wire transfer. As I understood your previous explanation, often you know in advance, such as from the Sales Department, that money is going to be wired in a particular time. Is that correct?

.- A That is correct.

. Q And you call the bank each morning to find out what the incoming wire transfers were the previous day?

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. A That is correct.

. Q And you also mentioned you call the bank each day for the activity. That was a word in quotes. What is the activity?

. A Well, I want to know basically what wires have hit the next day, any charges the bank may have made directly to my account that I am still waiting for advice for. I want to know what checks have cleared my account. I want to know what my cash position is each day basically. That's what--

. Q Okay. But I would be correct to say the paper work for incoming money might be said not to start with this previous informal word you hear from the Sales Department of even your daily call to the bank, the paper work starts when the advice actually comes to the bank?

. A When the advice actually comes from the bank.

. Q Let's take it from there. When the advice comes into the bank, the bank sends you a copy of the advice?

. A Exactly.

. Q Then you prepare a cash receipt?

. A A cash receipt is prepared. In the case of--we are talking wire transfer, so let's talk wire transfers. It is dated as of the day it is posted to your account, and the cash receipts form is prepared.

. Q In the Accounting Department?

. A In the Accounting Department.

. Q What is then done with the cash receipt form?

. A They are accumulated until the end of the month. They are summarized on a worksheet which distributes them to the various accounts. And there's only a very few accounts that are--that it's going to go to. It is going to be flight revenue, or it's going to be maintenance revenue, it's going to be incidental revenue of some sort. It might be some ground handling revenue. It might be a reimbursement of a third party item. A journal entry is prepared to put that into the ledger.

. Q Have I seen cash receipt worksheets?

. A I don't think so. I don't think there was any--

. Q Okay.

. A In the overall scheme of things, it was not something that I felt was asked for.

. Q I understand. But you do keep them once they are made?

. A They should back up the journal entry that posted the revenue.

. Q When you keep past cash receipt worksheets, are they kept in any particular order or fashion or by--how are they kept?

. . A Again, they should back up the journal entry. There is a book that has all the journal entries for a month in it, in a folder, and it should back up the cover page of the journal entry. If you go or if you were to look at the journal entries that you were furnished with, you saw a cover page, and in many instances I think there was a backup--I will take that back, there may or may not have been a backup page to it.

. Q If the question is where are the cash receipt worksheets, the answer is they're in a folder of journal entries? They are in a folder of journal entries filed month by month.

. Q Once the cash receipt worksheet is prepared, the monies on it are distributed. Who does that distribution?

. A It is generally done by the Chief Accountant or one of the clerks and reviewed by the Chief Accountant.

. Q Does that mean creating a new piece of paper or writing something on the cash receipt worksheet?

. A I am not sure I follow your question.

. Q You have a cash receipt worksheet. There is then an operation which amounts to distributing monies among different--

. A It is a piece of accounting paper that just has probably a series of dates that say, down the left-hand side, a series of accounts across the top and and the distribution of each day's receipts, which are totaled, those totals are taken to the journal entry form.

. Q Now would you describe that form, the form with the dates and accounts across the top and so forth?

. A I describe it as a piece--as an analysis pad.

. Q Once the analysis pad is prepared, what is then done with the analysis pad?

. A I have answered that question several times. It is put behind the journal entry. It is nothing more than a piece of paper like this that distributes the cash received on a daily basis.

. Q You mean it's kept in the folder of journal entries?

. A For the fourth time, it is kept behind the journal entry in the folder of monthly journal entries.

. Q You previously told me a number of payments you receive are not in the form of advices but checks, such as East--

. A The processes--ask your question, I am sorry.

. Q If you would go through the process for checks.

. A The process for checks is no different than it is for journal entries other than it is probably a day or two ahead of--I am sorry, no different than it is for wire transfers except it probably is a day or two ahead of the wire transfers because the checks actually come in to us, the wire transfers we have--what we know about them, we have to wait for the advice from the bank. They are listed out on a cash receipts form that summarizes it at the end of the

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month. That is part of the journal entry.

Q Good. At this point I would like to start taking you chronologically through events. We had started out with respect to the trip to Panama and the creation of the purchase of ACE and the creation of an ACE account at Banco de Iberoamerica. If I am correct, when you returned from Panama, Bill Langton told you to expect a large wire transfer or some--I am simply coming to the point where I would like you to start.

Did Mr. Langton tell you something of that nature?

A He told me to expect and verify the receipt of funds into the account. I could look and tell you what the--well, it is right here. In the amount of about $450,000.

Q Did he tell you it would be in that amount?

A Yes.

Q What else did he say in that conversation?

A That was pretty much the gist of it.

Q You don't recall--

A I don't recall him saying anything beyond that.

MR. TIEFER: Let's go off the record.

[Discussion off the record.]

BY MR. TIEFER:

Q Now you have said the company had, of course, given you, meaning Southern Air Transport, had, of course,

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advanced you the cash needed for the Panama trip, and you then properly accounted for your expenses through the company.

. A Yes.

. Q Would it be correct to say you set up some accounting method for how you would then have the expenses handled, or did that come at a later time, or what steps did you take during this time period?

. A I am not sure I follow your question.

. Q What did you do with your expenses when you came back?

. A They show up in the ACE pass-through account.

. Q Had you talked with anyone on the subject of creating a pass-through arrangement for ACE expenses?

. A Obviously I needed to talk to my Chief Accountant and advise her of what was happening and that there would be expenses passing through this.

. Q Had you been told by either Bill Langton or Dick Gadd or anyone else what to do about expenses related to ACE?

. A I am sure, although I don't recall a specific conversation, I am sure that Bill told me that expenses in regard to my trip should be charged back to ACE.

. Q Would he have told you anything about what would happen once they were charged to ACE? For example, don't

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you under some circumstances, send down invoices when you have charges for companies?

. A We may, we may not.

. Q Did you get some indication from someone as to what you should do with expenses for ACE, such as whether to bill them or not?

. A For the most part, the ACE pass-through on Southern Air's books was always in a credit balance situation, which means we were always ahead of what was being charged. Therefore, we didn't--had I been asked to send out an invoice or had I wanted to send out an invoice, I probably would have had to ask, ''Who do I send it to?'' No, we did not invoice that account if that is what you're--

. Q No, my question is: How did you know what to do with those very first expenses?

. A They were set up and charged to ACE through a pass-through account which already existed.

. Q And how did you know--am I correct that at that point, when the first expenses were being turned in by you, that you were not in a credit posture with respect to ACE?

. A I was not in a credit posture in respect to ACE on Southern's books, but there were funds in Panama because the first fund transfer took place just three or four days after that account was set up. So there were funds down there that I could have drawed on had I chosen to clear those expenses. As a matter of practicality, it wasn't done until several months later.

Q And you recall no discussion with anyone about what you should do with the expenses that were being passed through by ACE?

A I really don't understand your question, Charles. It gets set up in a pass-through account, it was my understanding. That is the way I would have set it up. Had it been Eastern, had it been United, had it been the U.S. Government, if it is a reimbursable expense, this is where I put the expense, and I either am going to be reimbursed for it, bill for it, or do something to get that money back. It's not my expense.

Q I am backing up because previously you explained some very terse conversations with Dick Gadd and some very terse conversations with Bill Langton, namely you were going down to Panama and what you were to do in Panama. I am trying to figure out the process by which, when you came back, you knew to do something more than to go down to Panama, you knew to set up accounting, that is to do this by a pass-through, that there was going to be in your explanation third-party reimbursement. How did you know that?

A I don't recall exactly, but my assumption would be that Bill told me that we would be reimbursed. I think you also recall at the same time we had people out looking for aircraft, and that was a reimbursable expense to us.

Q Do you recall any discussion about how the expenses of the people looking for aircraft would be handled?

A I really don't.

Q Would instructions on those matters, how the expenses were to be handled, have come from Dick Gadd or from Bill Langton or some person other than Dick Gadd or Bill Langton?

A It could have come from me. It certainly was within my power as head of the Finance Section to say these expenses are not ours, they are incurred on behalf of somebody else, and we need to accumulate them in this account and bill them. And at the time I do it, I may not know who I am going to bill them to.

Give you a case in point, okay? We're flying our log air route, which is a government route, and one of your--it is a bad example. Let me get into the commercial side of things. We are flying a commercial flight, and one of the loaders is using a forklift to load the aircraft, and the customer that we're working for is responsible for the loading, and he, through not paying attention, runs the forklift into the aircraft and damages it. Okay. I know that I have a problem there, I know that I need to start accumulating expenses because it's not my expense, I'm going to go back against somebody else for it.

I may not know who it is at that time, it may not be the customer because he may have subcontracted that to somebody else. So I am accumulating costs, and I am going to bill to somebody else which at some time will get billed to somebody else, but I may not know at that point in time who they are going to get billed to.

It's not an unusual situation, and I guess this is--you know, if you are trying to make it an unusual situation, let me say that it's not.

Q Your answer is you don't recall anyone giving you instructions on how expenses of ACE were to be treated, you simply did it on your own motion or you had it--there was a conversation--

A There was a conversation. I don't recall--I am sure that when Bill asked me to go to Panama, he may very well have said, ''Accumulate expenses, and they'll be charged back.''

Q It's possible he said that?

A It's possible he said that. I don't recall.

Q And as you say, right around that period, by your previous testimony, there were people out attempting to locate a C-123, or in any event that's what they eventually found out? No, they found--

Q What were they attempting to locate?

. A They were looking at C-123s, but they were not able to strike a deal on them. They ended up locating the Caribous.

. Q Do you recall any discussions about how the expenses of the people who were out seeking to locate that aircraft were to be handled?

. A I don't recall anything specific.

. Q If there were such directions, is Bill Langton the logical person to have given them, or is it possibly someone else? Did Jim Bastian give you such instructions?

. A It would not have come from Mr. Bastian, it would have come from Mr. Langton.

. Q According to the Banco de Iberoamerica recap you prepared, which is Exhibit 6--by all means, you may refer to it. The recap shows a wire transfer on November 14, 1985 of $450,000. Can you describe to me the circumstances under which that occurred, who talked to you about it and so forth?

. A I thought we went through that just a few minutes ago, but I will go over it again. I was told by Mr. Langton to expect this amount into the bank and to confirm it in there.

.- Q Did you call Banco de Iberoamerica?

. A Yes.

. Q Is that how you found out the transfer had been made?

. A Yes.

. Q Do you remember who you spoke to at the bank?

. A I talked to our account representative down there.

. Q I won't test you--is that in the papers that you brought back from Panama, or is it in some other piece of paper or do you remember the name?

. A I don't think it is. If you--are you--well--

. Q I wish to know the name.

. A You asked the question.

. Q Yes, I did. If you don't have the answer--

. A Eileen Fernandez, I think.

. Q To save a lot of repeats of the question, did you deal with the same person every time you talked there, or were there different people?

. A No, that was the person I dealt with in setting up the account, and that is always who I called.

. Q Wonderful.

. According to your recap of [redacted] and Tel Aviv activity, which is Exhibit 21--and I make no secret of the procedure I am going to follow. I am going to go chronologically. That will involve looking sometimes at Banco de Iberoamerica, sometimes at [redacted] Tel Aviv, and at whatever forms that occur in chronological fashion. According to Exhibit 21, which is the [redacted]-Tel Aviv recap,

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in December 1985 there was a flight from [redacted] which there were some financial transactions. Did you receive some prior notification in advance of these transactions that they would occur?

. A If I can take the liberty of commenting on this activity in general, I think I can short-circuit about an hour's worth of questioning.

. Q A precious hour. Please go ahead.

. A I am being facetious.

. On flight activity, we know ahead of time what is happening, and we know that funds either are forthcoming or have already been received. So we would either be notified by sales, or in the case of some of these by Mr. Langton, that these funds were coming and we should be watching for them. And the only follow-up I would do on them is if we did not receive them, as in the case of the one that did go through the First National Bank of Chicago.

. Q Finally. We'll deal with that in order.

. Starting with [redacted] like in December, 1985, did you receive any information from Mr. Langton money in this regard would be coming?

. A I don't recall.

. Q Do you recall receiving information from anyone else that there might be money related to this flight coming?

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A Any funds that were received for flight revenue would have come--advice of the transfer being made would have come from within side the company, none of it ever came from outside the company. We would have either received it ahead of the flight or a portion of it ahead of the flight, or Bill or Sales would have said something. If you want to go down these one by one, I can tell you that my answer for almost all of them is going to be I don't recall.

We get wire transfers almost on a daily basis. When you go back and ask me to recall specific ones, you know, unless there's something really unusual about it, I can't tell you where the advice came from.

Q Let me start with the December, 1985 [redacted] because I haven't previously asked you about how flights were regarded by you or understood by you.

Were you aware that--perhaps I don't wish to say were you aware--did you understand [redacted] flights to be related in any way to Dick Gadd?

A No, I did not.

Q Did you have any sense as to the [redacted] flights being related to a particular customer of any kind?

A Not that I can recall. Maybe I ought to back up and qualify my first--

Q By all means, by all means.

A Perhaps some of these I might have related back to you arrangements with Dick Gadd.

. Q If I can understand where along the line and how that took place, you started work in August or September, it doesn't matter. Do you have an idea how once you started the company you came to understand the [redacted] flights might have involved Dick Gadd?

. A Without going back and looking at specifics on each one, I can't tell you. It may have been that some of these were billed internally to East.

. Q Let's look at--you would look in your pile at Exhibit 14, which is this. And if, using the SAT numbers on the sheet, you would look forward to 1773 and 1774, these are cash receipts and wire advices. 1773 shows a cash receipt in the amount of $60,000 and a date of December 11, and the name in the far left column is Eastern Incorporated. 1774 shows an advice from credit, and it has a handwritten notation ''East Incorporated'' on it.

. Looking at these and refreshing your recollection, do you have a sense as to when you came into some idea of who the customer was on [redacted] flights, in the broadest sense of the term?

. A In the broadest sense of the term, looking at this, what I would say is that it would appear to me that at least in the Finance Department we attributed these flights to being set up, brokered, I don't know what term you want to use, by East.

Q Would that understanding in the Accounting Department have come about through anyone talking to you? Or do you have a sense it pre-existed your arriving the Finance Department? Do you have a sense Bill Langton talked to you or Dick Gadd talked to you, or who talked to you?

A Dick Gadd did not talk to me, that I can tell you, at least in December.

If anybody talked to me, it was Bill Langton, but I honestly don't recall on this particular one.

Q What was your sense as to the relation, if any, between your customer on the [redacted] flight and your customer with respect to the setting up of the ACE account? And what I am getting at is, did you have a sense it is one customer and one operation or two customers and two operations?

A My sense was that it was two customers and two operations.

Q Can you explain the basis on which you would have had that sense?

MR. KIRSTEIN: You are asking at that time.

MR. TIEFER: At that time.

THE WITNESS: At that time, which was December of '85, I just had--I did not have sufficient knowledge to tie the two together, if in fact they are tied together.

BY MR. TIEFER:

. Q At some point, though, you did have a sense that Dick Gadd was your customer or spoke for your customer on ACE matters, and Dick Gadd was your customer or spoke for your customer on [redacted] flight matters. Is that a correct description?

. A Until, say, early November of this year, when the ''Iranian matter'' came up, I never tied the two together. So the fact we were making Tel Aviv flights and return flights or ferry-over, live runs from [redacted] the fact that might be tied to anything else that had to do with ACE did not enter my mind.

. Q You did have a sense both of those matters were Dick Gadd matters, is that correct?

. A But Dick as a broker--okay?

. Q Okay. Can you explain in as much detail as you can?

. A Dick is located in the Washington area, obviously has contacts and obviously knows of movements that need to be made. And he knows that Southern can move them. So he would serve as a middle man between what our impression was, something coming out of the government, and Southern.

. Q Now, I believe I previously asked you last time about whether you thought Dick Gadd was acting for someone higher, and you said yes, because someone of his rank or his position usually doesn't act on his own, usually acts for someone higher. I am not asking you a question about that, I am just mentioning it because--okay? Is that a correct statement of your sense about Dick Gadd?

. A That was not the person that you asked me the question in relation to.

. Q Okay. Let's speak about Dick Gadd then.

. A Okay.

. Q With respect to ACE, did you have a sense as to whether Dick Gadd was acting for someone higher, was brokering on behalf of someone else or acting for himself?

. A I had the sense that he was a middle man on it.

. Q Did you have the sense that he was a middle man on behalf of a government agency?

. A That was my impression.

. Q That is on ACE. As we turn to East, did you have a sense as to whether he was a middle man--by East, I mean at this point [redacted] flight. Did you have the sense he was a middle man for someone?

. A I always thought Dick was a middle man. He was not acting on his own on any of this.

. Q Did you have a sense as to who he was a middle man on behalf of with the [redacted] flights?

.- A I really didn't.

. Q Continuing with Exhibit 14 and pages 1775 and 1776, they show cash receipts and an advice in the amount of--dated

December 18, in the amount of 58,500. Looking at the same time at the recap of [redacted] Tel Aviv activity for December, 1985, you have listed this wire transfer and this cash receipt as related to the same flight. Can you describe the surrounding communications you received or information that you received that would have caused these two wire transfers to be related to that flight?

. A The only thing I can tell you is basically what I said on the last one. We knew we had performed or were going to perform a flight, the revenue we should expect was 118,500, and that added to the 60,000 came up to the 118,500.

. Q Would you have talked with Bill Langton about the fact the money had come in on the [redacted] flight?

. A Probably did tell him that I had received the money. That's true of a lot of charters or a lot of activity that we have.

. Q You don't remember discussing anything else concerning this with him?

. A No.

. In my mind, I am going to make a statement on all [redacted] flights, and really on the Tel Aviv flights also. They were ad hoc charters that were performed by our 707, and we really had no reason to question any--anything about the customer or circumstances, or what have you. I mean, it was--

Q Let me ask in that regard, because there were others in your company who in respect to other aspects of the Tel Aviv flight--I may be telling you something you know or don't know, we are under very strict instructions to treat it as a very secret matter. You had no sense the Tel Aviv flights were different than any other charter the company performs?

A I believe I said last time that I was aware that beyond Tel Aviv there was activity. I did not know what it was, I did not know what the nature of it was. I did not ask questions because I felt that if I needed to know, somebody would have told me. My job is to track the dollars, it's not to track the flights.

Q I know you would like to get past all these transactions in one answer, but your answer you just gave me shows some flights are not the same as other flights, and I must, therefore, ask about each flight so I get the full knowledge you had about each flight.

Looking at 1773, 1774, 1775 and 1776, and looking particularly at the two advices, one of them being 1774 and the other being 1776, the first being the December 11 advice and the second being the December 18 advice, you see that they are not identical. Do you have any sense as to why one is one and the other is the other? I am really asking whether at that time you were aware money had come in in one instance from Switzerland and in the other instance from Republic Bank in New York.

. A I really can't answer your question on why they're different. We do receive both types of advices. It may have to do with whether it moves on a domestic wire or whether it moves on an international--comes into their International Department. This one, if you look at 1774, does say ''International Department'' on it.

. Q The Switzerland one?

. A The Switzerland one.

. The other one could equally as well have been a foreign remittance, but it came through Republic, New York City, and the last leg of it was domestic and, therefore, reported that way. That is not at all unusual.

. Q Looking at 1774, it has the handwritten words ''East, Inc.'' on them. Do you have a sense as to who wrote the words ''East, Inc.'' on them?

. A Yes.

. Q Who was that?

. A It was Daisey Saures, my Chief Accountant.

. Q Do you have a sense as to whether she did that on your information or on someone else's information?

. A I really don't. The normal--if I had been aware or I had been told that we were performing an ad hoc charter, I would have said ''Be on the lookout for this amount of money,'' and she may have come to me and said, ''We have this'', or I may have gotten the advice of it by phone from the bank and said, ''You've got this coming and this is where it goes.''

. Q Now, you previously explained at least at some point you had a sense these were Dick Gadd matters. Since Dick Gadd, as you have said, handled several different matters with Southern Air Transport, how would either you or Daisey have known to put East, Inc. on this credit advice?

. A I am not sure I follow your question.

. Q You at least at some point--go ahead.

. A There may have been several things, but there generally was only one thing open at a time. So if you are--I will let you ask the questions.

. Q Perhaps I should ask it this way. It may have been that the Flight Operations Department knew that it was going to perform this service for Dick Gadd, but they performed many flights, perhaps, or at least several flights for Dick Gadd. Is it from them that the knowledge comes that this is an East, Inc. flight, or is it from some other source it comes that this is an East, Inc. flight?

.- A We have a morning operations meeting every day where we go over the activity of the previous night and any unscheduled activity that may be taking place over the next

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day, week, two weeks. It's very possible that from that I came back to the Finance Department with the knowledge that we were performing this flight, and we were looking at it as an East flight. I honestly don't remember the circumstances around it.

. Q All right. I appreciate--when you would hold such a meeting and if the knowledge would come into that meeting from someone that you were doing it as an East, Inc. flight, who would bring such knowledge into the meeting?

. A It could come from the Operations Department, it could come from the Sales Department, it could come from Mr. Langton, it could--

. Q So you are saying the Operations Department and the Sales Department knew something about which Dick Gadd operations were of an East, Inc. nature and which were of some other nature? Or did only Bill Langton have that knowledge?

. A Again, I am unclear about what you are really asking.

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[1:30 p.m.]

Q I will go back to the question I asked, but the information I am seeking is, who in Southern Air Transport knows which of Dick Gadd's operations are of one kind and which of another?

A I don't understand ''of one kind and are of another.'' That is the thing that is confusing.

MR. KIRSTEIN: I think he testified that Gadd worked as a broker and that he doesn't know who the ultimate customer was.

MR. TIEFER: I am asking from who came the information to write the words, ''East, Inc.'', and if you are telling me--

MR. KIRSTEIN: It could have come from the sales department and it could have come from another point.

THE WITNESS: The only thing I am saying is, as far as I am concerned, in the financing department my concern is that I get the dollars. Who it comes from is really immaterial.

BY MR. TIEFER: It is material to this investigation where the information came to write the words,

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''East, Inc.'' on that form.

Could it have come from the sales department, because if the answer is yes, then there may be inquiries we need to pursue in the sales department.

A It may have come from the sales department. It may have come from the operations department. It may have come from Mr. Langton.

Q Now, if the information comes from another department such as sales or operations, is that likely to be because they have talked directly to Dick Gadd?

If you have any knowledge or because they have heard from Bill Langton, do you have a sense as to how knowledge comes into those departments about a subject like that?

A Any time there is a flight, operations has to be involved in it, particularly any time there is a flight out of the country you have over fly rights, you have various permits, permissions, what have you, that you have to get.

Q Do you have a sense that there was someone in operations who spoke to Dick Gadd?

A I am sure there was. I am not sure that I can tell you who it was.

Q Is it your sense that it is likely to be the top person more often or do people engineer down to such discussions? And if you have no sense, then you say you

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have no sense.

. A Depending upon the circumstances, it could have been anyone from the top down through the dispatchers. It depends upon what the question is.

. Q That is operations. In sales, similarly, could it be anyone in the sales department who spoke to Dick Gadd?

. A Perhaps I should qualify that at this point in time, and say the sales department is probably the least likely place where that information would have come from, although that is not true for charters in general.

. Q And can you explain why the sales department is the least likely department for that information to come from?

. A I think, for the most part, Dick dealt with Bill Langton, did not go through the sales department.

. Q So to sum up, Dick Gadd may have dealt with the operations department, and dealt with Bill Langton, and on occasion dealt with you, and you have no particular sense that he would have talked to anyone else in Southern Air Transport.

. Maybe I should add James Bastian into that list, maybe not.

. A That is probably a fair statement.

. Q Is there anyone in particular you would add to that?

. A I was trying to think who I would include in

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operations, which operations you look at would also include the maintenance department.

. Q This is a question I have asked and you have answered, so you don't have to feel dragged through it again.

. In operations, you don't have any sense as to who would have been speaking to Dick Gadd?

. A It could have been any one of a number of people.

. Q Fair enough.

. Now, looking back at 1974, December 11, advice from Credit Suisse, do you know of any other previous payments that Southern Air Transport had received that had come from Credit Suisse?

Let me mention one point. As your recap shows, there had been before you came into the company January and March [redacted] flights. It is possible under some circumstances you would have talked with your predecessor or someone else about it. It is possible you didn't talk about it.

. A I, to the best of my knowledge, was not aware of any transfers that had come in from Credit Suisse.

. Q Were you aware of previous transfers that had come in from Swiss banks generally?

. - A Without going back and recapping all the flight activity for the months prior to December of 1985 that I was there, I can't answer that question.

It is very possible that it happened. I mean, we do business with people all over the world.

Q Moving on from the month of December to the month of January, on Exhibit 6, the Banco America recap, there is a series of activities, both deposits and disbursements, shown in the month of January.

The disbursements--correct me if I am wrong on this--apart from a small charge, it says two wire transfers consist of one on January 12 and one on January 31. Are those two disbursements and those two transfers all related to one transaction that you could describe in a way?

A Basically, that is true. The first transfer of $230,000 allowed me to complete purchase of the first Caribou. The second transfer of $150,000 at the end of the month allowed me to have funds to make deposits when necessary on the second Caribou.

Q In connection with these financial arrangements for the purchase of the Caribou, do you recall any conversations such as discussions with Bill Langton?

A I do recall him requesting me to transfer the deposit on the 15th of January, and I do--on the 371. I really don't recall whether I had conversations with Bill. At some point, I had to, because he would have instructed or given me instructions that said when everything is okay, they have accepted the aircraft, to go ahead and transfer the funds.

. Q Can you explain the sequence? As we last left you, you knew that people in the company were out looking for an airplane. Did someone tell you they had found an airplane? Did someone tell you they had found an airplane? Did someone tell you who they were then going to transfer to? What do you recall the sequence?

. A They had looked at around Christmas time to the end of the year, looked at some C-123's in Venezuela. That deal did not materialize.

. Then I did understand that they were looking at some Caribous in Canada. We had some people up there that looked at the records and so forth.

. Q And then what did anyone tell you with respect to finance, and who told you, and what was the full conversation? Did Bill Langton tell you some more about this?

. A He may have given me a coy of the purchase contract. At some point in time, I knew that the purchase price was something around $530,000 an aircraft, that there was to be a deposit made, and then when the aircraft was ready and accepted, that the balance of the funds needed to be transferred.

. Q And did he say where these funds would come from?

. A From the ACE account in Panama.

Q He told you they would come from the ACE account in Panama?

A I am not sure he told me that. I shouldn't say that. I am sure he had to have said that, but it was my understanding all along that is where they were coming from.

Q Now this had been a large--there had been a $450,000 previous wire transfer. Did he tell you to be on the lookout for more wire transfers?

A He told me--it may have happened one of two ways, and I don't recall what the scenario would have been.

Out of the 450, I had sufficient funds to make the initial payment, the deposit of $159,000.

He may have said, they are going to get ready to pick up, the aircraft will be ready in three or four days; in that time you need to wire, transfer the balance. And I may have said, well, I don't have enough money to do it, or he could have said, there is another wire transfer on its way.

I don't recall which way.

Q I don't know whether it will refresh your recollection or not. I will draw your attention to the documents provided that appear to be telexes to and from, or mostly to Banco de Iberoamerica. That is Exhibit 16, page 976, which is a telex that says, ''to make a transfer on January 24 in the amount of $371,000 to Bank National of

Canada.''

. Do you recall being told by him to make this transfer?

. A I don't know how to put it so that I could get you to understand. I just answered this question, I think, three or four times.

. I was either told to make it or was told to expect a call from the person that was up there accepting the aircraft saying everything is okay, and you need to make a transfer to complete the transaction.

. Q Do you remember whether Dick Gadd himself spoke to you in the time period of these transactions?

. A I don't recall having any conversations with Dick Gadd in this time frame.

. Q In the conversations that you may have had with Bill Langton, would Dick Gadd's name have been mentioned in connection with this aircraft?

. A I don't recall Dick Gadd's name being mentioned in connection with it. It may very well have been, but I can't say with any certainty that it was.

. Q We have spoken largely about Bill Langton. Would you have had conversations on the subject we have been talking about with James Bastian?

. A No.

. Q Or with either Stan Williams or Vernon East?

. A No.

. Q Now, the Banco America recap, Exhibit 6, shows a wire transfer in a disbursement area on January 21 to San Salvador. Do you recall the conversations surrounding that wire transfer?

. A Yes.

. Q What were they?

. A Okay. I received a call from Dick Gadd. This may have been the first time--

. Q Spoke to him since you went down to Panama?

. A Yes, requesting that I make this particular transfer for operating funds in Panama, or in [redacted]

. Q As a matter of phone calls, does Dick Gadd either at this time or other times sometimes call you when you have to call him back, or is it always he catches you, if that is a question you understand.

. A I understand the question very well. It could work either way. David can attest to that.

. Q Would you have had to check, or do you recall checking with Bill Langton about the making of this transfer, or on Dick Gadd's phone call would you have acted directly?

.- A I don't recall. I probably would have mentioned it to Langton prior to doing it.

. Q Do you have any sense what that conversation might have been?

A Specifically, no. It would have been Dick asked me to do this.

Q You had previously explained how natural it is when there is a large amount of money in a bank account and you have teams of people out looking for planes, that you come to the conclusion that you are on behalf of a customer looking for a plane.

Did it come as any shock that you were doing this additional activity with ACE, namely wiring money [redacted]

A I was aware that the first Caribou had gone [redacted]

MR. TIEFER: Off the record.

[Off the record.]

MR. TIEFER: Back on the record.

BY MR. TIEFER: You had been saying that you were aware that the plane had gone down to [redacted]

A It would not be unnatural to have to support it once it got down there. You can't--I mean, you don't pull up to the local gas station.

Q Go ahead.

A I am just saying it was--to me, it was not an unusual request.

Q How did you understand your role, Southern Air

Transport's role, in the transaction, which at this point did not involve the purchase of an aircraft, but involved transferring money.

A I think we were middleman or facilitator.

Let me qualify that. Let's say I was a facilitator.

Q Do you perform comparable activity for anyone else?

A We could.

Q Do you?

A Do I? As an individual, no.

Q Did it seem to you unusual that you had now embarked on an activity that you did not otherwise pursue?

A It wasn't a whole lot different than other things that we do, except that it was done outside the company. For instance--and again, I get back to my past year account--I regularly advance funds for airport landing fees for third party customers.

Q I don't wish to argue with you.

In that instance, because of the hypothetical you picked, you know where the money is going and what use it is being put to, and I understand you to say you have no idea what this money was going to be put to.

A No, that is true.

Q So did it come as some surprise that you were now advancing money in situations where you had no idea what the use it would be put to was?

. A Not really in the natural flow of what was happening.

. Q In our previous deposition, you stated that you had a belief that you might have been doing this for an ultimate customer which was the CIA. Would you have had that belief at this time?

. A Yes, I think I might have.

. Q Does it seem--would it have seemed to you--did it seem to you at the time natural that that might be who the ultimate customer was to do an activity such as this?

. A I think it would, it might have been in keeping with that.

. Q Good.

. Now, also in January of 1986, Air Mach received its contract with the Nicaraguan Humanitarian Assistance Office, and had a chartering or other subcontracting relationship with Southern Air Transport.

. I don't want to take us all over that again. Did you at this time period have a sense that this was another matter on behalf of Dick Gadd that Southern Air Transport was doing?

. Did you now have a sense it was several Dick Gadd matters, or was it only later?

. A Dick was the broker, and the business came through him, and the checks came from him.

Q But I am trying to get the time frame. In January of 1986, did you already know that you had this other Dick Gadd business?

A The humanitarian relief?

Q Right.

A I think one or two flights in January, and I am not sure that I made that connection. I think it was a little further on, simply because I got more involved in trying to resolve some dispute that were arising out of that.

Q That was your previous testimony.

Who in Southern Air Transport would have been talking with Dick Gadd on that matter, on the NHAO matter?

A It could have been Bill. It could have been the operations department.

Q And do you have any sense within the operations as to who it might be?

A Again, it could have been--it could have been one of several people.

Q On that matter, could it have been the sales department as well that would talk to him?

A That is possible, but I am not--

Q And in sales, any sense as to who it would be?

A It could have been any one of a number of people there.

Q Now look at Exhibit 9.

A Which one is 9?

Q A good question.

I believe it is a set of cash receipts and wire advice. We will work from the exhibits. It will be confusing if we are working from different sets.

A We don't have copies of it, then.

Q It may well be you don't, because I am not finding mine. Let me look at a set that I have not taken apart. What I am referring to is this, the top page.

A I have that.

Q If you look at pages--start with page 475. These are apparently not in order. Oh, I see.

Off the record.

[Off the record.]

MR. TIEFER: Do you have 475? At the same time, if we look at the recap, Exhibit 21, which shows--maybe you should correct me. If I am looking for the appropriate recap, should I look at the one you produced today or should I look at this one?

A You should look at this one. I did not reproduce--you already had this. I didn't do that one over again.

Q I understand.

The recap shows in February 1986 a [redacted] flight.

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I am trying to verify. I want to be looking at the same time at the underlying cash receipts and wire transfers.

A For what date?

Q No. I don't want to be looking at [redacted] flight. I want to be looking at number 6, the February 1986 Tel Aviv flight. Your recap shows that there were cash receipts and wire transfers, and that these are--document 475 is a February 17 cash receipt, and that is the cash receipt we are looking at.

A Yes, sir.

Q Can you describe transactions that took place and the circumstances, the phone calls and the communications that you remember surrounding the February 1985 Tel Aviv flight?

A I was aware of the fact--again, I am going to say from the operations meeting, that we had a flight to Tel Aviv. I believe I was aware of the fact that the price on it was $474,000, and we were looking for the money to hit our account.

This one, in particular, was a little bit strange, because--and this is based on conversations with Mr. Langton--the customer insisted the $270,000 will be sent, and we couldn't find it.

Q You could tell that again. You have told it. I won't make you tell the Chicago story again. At the time--at that time--this is the first flight to Tel Aviv--were you aware from this first flight that it was a matter that continued on beyond Tel Aviv?

. A Not at that point in time.

. Q It would have been a later flight or a later time?

. A It was after--I don't know what the time frame was--it was after the flight took place and had returned. In fact, it was after the crews had returned back to the states that I was aware of the fact that there was activity beyond Tel Aviv.

. Q Now, the cash--there were two cash receipts, February 17, which is 475, and February 26, which is 472. Do you have any sense as to their being a series of payments and any reason for this?

. A I don't understand your question.

. Q Were you told to look for a specific amount and the wire transfer that came in was the specific amount you were told to look for, or were you told to look for a specific amount and the two added up together?

. A No, on the 17, I think, verified I had 270. I still knew I was owed 214 to complete the transaction. Obviously, I had another invoice that was cut at the same time for about 26,000. It looks to me like it was all put to East and then it was subsequently distributed to two particular invoices, 2627 and 2628.

. Q Do you have any recollection of where the information or instructions about such a distribution would have come from?

. A It may not have come from anybody. They may have been able to look at the amount that came in and decide within the Department where it needed to go.

. Q And is that because information on those two invoices would have perhaps been what told you what to do? Is that what you are saying?

. A Well, what I am saying is, I may have had only two open invoices from East, one which was the balance of 8627 for 214,000, and another one for 26,000.

. Q I think you are describing something which is obvious to you but not to me. In other wire transfers--we are talking about invoice here. We are not talking about--you are referring to invoice by Southern Air Transport; in effect, Southern Air Transport's bills.

. A Right.

. Q To its customer. In other situations where you received wire transfers, there were no invoices, because the wire transfer came in in advance. In this situation there is an invoice.

. A Yes.

. Q Can you explain why?

. A On flight activity we always cut an invoice. It is a way of checking at the end of the month to be sure that we have booked all the revenue that we should have booked that month.

Now, an invoice may not be sent, but there is always one that is cut.

MR. KIRSTEIN: Just talk to him for a second?

MR. TIEFER: Sure.

[Counsel and witness conferred.]

MR. KIRSTEIN: We were just discussing the possibility that this 26,000 allocation--and the reason it dawns on me is because there is an invoice--is that it might have been a no-help flight which, even though it was ''Air Mack'', those were treated as East.

MR. TIEFER: That is a helpful clarification.

BY MR. TIEFER: Can you explain all that?

A Yes. East became, as Ace was, if you will, a generic name for an activity.

Q And what did that activity include?

A Well, East obviously included the Tel Aviv flights, the [redacted] flights, the Know-how flights.

Q But not Ace?

A I wouldn't say with any degree of certainty that there was that--I don't think there was, but Ace became the whole Ace Udall Corporate Air side of things.

Q And so, as you have just ticked off some companies, you have ticked off some types of activities which are East activities and other types of activities which are Ace activities?

. A Yes.

. Q In the accounting department, was there a general sense that there were these two different types of activities?

. A Yes.

. Q Do you receive information about that distinction from Bill Langton or anyone else that there are some Dick Gadd activities which are type-A and some which are of type-B?

. A No, I think it grew over time.

. Q How?

. A Just from being involved in what was happening. If I had a problem with know-how flights, I didn't go to Langton, although I may have mentioned it to him. I would go to Dick Gadd's controller, Cindy Donlinger, and raise the question with her.

. Q Would you go to her on matters concerning [redacted] Tel Aviv flights?

. A There was never a problem with the monies on those, so there was no reason to go to her.

. Q I am seeking where the sense, where the information comes from that puts [redacted] Tel Aviv, and MANO in one category. Does it come down from Bill Langton? Does it come from the operations department? Do you have any idea where it comes from?

. A You are asking me to be specific about something that, in my own mind, grew over a period of time, and since it has probably been warped by everything that I have read in the papers and what have you, to be able to specifically answer that question, I am just not sure.

. Q Looking at these cash receipts, who wrote the word "East, Inc." on each of them? I am referring to the Chicago February 17 and the CaS February 26.

. A It looks like Daisy Suarres.

. Q Do you have any sense who would have given her the information to write "East, Inc." on it?

. A If she didn't know automatically where it went--let me back up for a second. This might help. There is a billing instruction that is cut.

. Q What is that?

. A Which is a form that says, this is how you bill this particular activity. Here is the customer, here is the amount, here are the payment materials, so on and so forth.

. And that billing instruction is necessary to--I am not going to make it 100 percent, but generally is used to type up the invoice, so she could have gone back to a billing instruction.

It could have been one way. I could have said, this is the way this needs to be distributed, particularly if the money comes in ahead of the flight activity, because you don't have a billing instruction. And I could have gotten it either from the operations meeting or a conversation with Bill.

Q Who prepares the billing instruction?

A It would generally come out of the sales department, or in the case of certain types of military activity, out of Ray Taranto's office.

Q Do you have a sense that there were billing instructions in connection with [redacted] Tel Aviv flights?

A I think there probably were.

Q And who would have prepared those?

A I think they may have come out of Ray Taranto's office, but I am not sure.

Number one, I am not sure whether they existed; and number two, I am not sure--if you are asking me if Bill Langton would have prepared them, the answer is no. That was not something he would have done.

Q Once they are prepared and used, are they then kept somewhere?

A For the most part, once they are used and the funds are checked we have no further use for them, so there may be a short-term file, but beyond that, I believe they are discarded.

. Q Am I correct that this is your testimony? There may or may not have been billing instructions on the [redacted] and Tel Aviv flights, and if there were any, they may have been destroyed?

. A That is correct.

. Q Your recap shows--and I believe, naturally, from what you have said, but I want to make the connection--that for the wire transfer to, first, Chicago, there is no copy, or at least it shows no SAT number.

. Now, let me ask you, because you have explained the Chicago transaction at considerable length. Given that you no longer were a customer of Chicago, do you have a sense as to what paperwork existed that brought, as the money that you discovered in Chicago was brought to Southern Air?

. A The other side of the transaction, and I don't see it here, would be a cash receipt form for C&S, because the money was immediately, once it was discovered in Chicago, it was immediately wired to C&S.

. I would want to go back and look at that before I said that definitively, because, in essence, what we are getting is a double booking of 270. By double booking, we are counting it twice if I have two cash receipts, so maybe I have a 270 wire transfer advice that is just hanging loose someplace, and it was booked off of this particular cash receipt form.

Q As you know, I have made no document requests. We will do that in an organized fashion.

Is it fair to say at this point, though, we are still looking for the underlying paperwork on the Chicago wire transfer of $270,000, the cash receipt and the wire advice?

[Witness and counsel conferred.]

THE WITNESS: I recall going back and looking for underlying documentation on this, and it was my thought that I had produced it to David. David tells me that he doesn't recall seeing it.

MR. KIRSTEIN: But if it was--

THE WITNESS: If it was, you have it.

MR. KIRSTEIN: It was given to you.

MR. TIEFER: The further description is accepted. My own sense is that we are looking for the paperwork on the $270,000.

THE WITNESS: If you will give me just a minute.

MR. TIEFER: I would rather put the question aside. It is not a big one.

THE WITNESS: It is in my mind.

MR. KIRSTEIN: Charles, have you seen a document like this?

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MR. TIEFER: You are showing me--

THE WITNESS: That may have just been off the bank statement, which was all I could find on it.

BY MR. TIEFER: You are showing me a form that has First Chicago letterhead, and perhaps you can describe to me what this form is.

A What it is showing--

Q This is a wire transfer, an advice?

A No. In essence, it is, because it is showing a wire transfer that came in on the 14th of--

Q February?

A --February, the week of the 14th of February, and this is the information that we had on it.

Q It came from Republic Bank.

A Through Republic Bank by order of C.S., Ltd.

Q Investment? Go ahead.

A For $270,000. That is the same information that there is on the bottom of the exhibit.

Q I don't mean to argue with you, but perhaps what those words mean are CSF investments, and there is no ''F'' on the recap.

A That is possible. I see that my description does not match.

Q We have an interest in CSF.

MR. KIRSTEIN: This may have been produced, because

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there is a document number reference here 1793. If it hasn't we will make copies and give it to you.

MR. TIEFER: I don't mind checking that. Before I didn't, but when the letters ''CSF'' appear, you get my attention.

MR. KIRSTEIN: Did you find that?

MR. TIEFER: One of the exhibits--

MR. KIRSTEIN: Has it?

MR. TIEFER: Consists of the material that you gave Citizen and Southern. It is Exhibit 15.

MR. TIEFER: It has on the top of it the letter from John Getz of C&S. This is Exhibit 15, and we turn to page--your form says ''1793''.

MR. KIRSTEIN: It is not the same, but here is the advice for 240,000.

MR. TIEFER: If Mr. Mason, the witness, could give the explanation.

MR. KIRSTEIN: I am sorry?

MR. TIEFER: I will be happy to swear you in, Dave, if you want to give some testimony.

THE WITNESS: What is the number?

MR. KIRSTEIN: 1793.

THE WITNESS: That is $240,000. It is not 290.

BY MR. TIEFER: Yes, and that is my understanding, that there was no paper. That is why there is no number under 270.

A 475 is the only thing that I found going back through, which was just the cash receipt form.

Q We will discuss documents in the--I was just shown the Chicago transfer from CSF Investments on the case. It is a matter of interest.

Looking at what we do have, which was 473, 473 is a credit advice dated February 26. Do you recognize this?

A Yes.

Q Do you recall seeing the name of the entity that this was sent at the request of?

A I don't. I am not sure what language it is in, but it could be, just say something no more than at the request of one of our clients.

Q Can you read what it says?

A I don't--I am not--maybe you can enlighten me. Un de nos clients is what it says.

Q The reporter will take the spelling from the form. You are not being tested on different languages.

Was there ever a prior matter on which you recall Southern Air Transport receiving wire advice where there was no clear indication of who the entity providing the money was?

A There is a possibility. Again, without going back and looking through the wire transfer--again, we generally

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knew in any wire transfer what dollar amount we were looking for.

. Q But sometimes Southern Air doesn't know who is going to send it the money.

. A I don't know how to answer that one in the context that I think you are asking it. It is not unusual for us to perhaps contract for, say, an ad hoc charter and have the funds come from a different party.

. Q Do you understand that from this wire transfer you don't know who is sending you the money? I don't want to test you on foreign languages. You received this wire advice. I am asking you now what you think. I am asking you then what you knew.

. A Obviously, at the time the wire hit, we had an understanding of what it was for and how it was to be distributed.

. How I had that knowledge, I don't know.

. Q What was your understanding at the time?

. A If you go back to the prior page, you can see how it was distributed on the cash receipts form.

. Q Namely, East.

. A Right.

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. Q You can't tell me how you had that understanding? I am asking a separate question of you, if you still can't tell me, is it in any way remarkable at Southern Air Transport that you don't know the name of the entity giving you the money for a flight?

. A We obviously had, for whatever reason, invoiced the flight to EAST, invoiced two flights to EAST, and received funds that were to be credited to those flights. If EAST was serving as a middleman, that would not be unusual. We knew the distribution of the funds. Where it came from really wasn't a concern. I don't really follow your--

. Q I will ask the question a different way. You had some belief that Dick Gadd might represent the U.S. Government in some matters. Does the receipt of a wire transfer from Switzerland for an anonymous party--

. A Dick Gadd also, as I said earlier, was a broker. He would represent anybody.

. Q I am asking you whether your belief that he may have represented the U.S. Government in these matters was affected by your receiving a wire transfer from an anonymous source in Switzerland?

. A Let me answer your question this way. Number one, I may or may not have seen the wire transfer advice. I

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certainly would have known that we received the wire transfer in the amount of $214,000.

. Q Would someone in your department have looked at this advice when it came in?

. A I'm sure that Daisey looked at it, but I'm also sure that again if she knew the distribution of it, or she had an idea of the distribution of it, what she was looking for was the dollars, not where it came from.

. Q So that whether it was you who looked at it or she who looked at it, the fact that there was an anonymous source for the money would not have drawn any attention in Southern Air Transport?

. A No.

. Q A chronology that your company has produced reflects the fact that there were two different sets of flights in February to Tel Aviv, one in the middle of the month, one at the end of the month. Did you have any awareness of such a distinction, that there was more than one flight to Tel Aviv?

. A To Tel Aviv?

. Q During this period.

. A There were, my recollection is that there were two aircraft that went, but they went at the same time.

. MR. KIRSTEIN: You are confusing flights with Israeli aircraft into Iran with the flights from Kelly to

Tel Aviv.

BY MR. TIEFER:

. Q You were aware in any event of--were you aware at the time of what you just said you were aware of?

. A I was aware two 707s flew from Kelly Air Force Base to Tel Aviv.

. Q Looking at the recap for [redacted] and Tel Aviv activity, Exhibit 21, we now come to item 4, a February flight [redacted] for which wire transfers came in in March. Do you recall the circumstances surrounding those financial transactions?

. A My very, very limited recollection. I would be aware of course that we had an ad hoc flight going. I don't recall any unusual circumstances surrounding it. As long as I got paid for it--

. Q Suppose we look at Exhibit 14.

. A Is that this one?

. Q Pages 17 and 79 towards the back. I am talking about the last couple of pages, 1779, a cash receipt dated March 21, credit advice 1780, 1781, a cash receipt dated March 6. Start with March 6, one, and underneath the 1782, a wire transfer. Looking at cash receipt 1781, March 6th, do you recall the circumstances surrounding that?

. A I really don't.

. Q There is a handwritten statement on cash receipt dated March 6. Do you recognize it?

A On March 6?

Q Cash receipt.

A Here?

Q Yes, that is exactly it. Can you read it?

A Yes. It says originals given to Bob 12-17-86.

Q Do you know who wrote that, what it means?

A Yes. What it means is that when we were collecting original documentation to be presented in this or related hearings, and I had my people go back and make copies of everything that was there, I had Daisey keep copies of these, and give me the originals, and that was a note she made on it, and evidently in recopying these, we got a copy of the copy. It has absolutely no significance to it.

[Counsel and witness confer.]

MR. TIEFER: Let's take a break now.

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BY MR. TIEFER:

Q Look at the Banco de Iberoamerica recap, exhibit 6. In the disbursements side it shows on March 4, a pair of wire transfers, $19,000, to continue air services, $35,000 to Southern Air Transport.

Could you describe the circumstances of those transfers?

A The first one, the $19,000, was made at the request of either Dick Gadd or Cindy Dondlinger. I am not sure which one.

Q That is Corporate Air Services?

A The Corporate Air Services. And my understanding was that it was for payroll and operating expenses for the [redacted] operation.

Q Before we go on to the other one, have you ever heard of Corporate Air Services before they discussed this with you?

A No.

Q You say it is possible that it was Cindy Dondlinger?

A I am not sure on the first one whether it was Dick or Cindy. Subsequent ones I think, were pretty much Cindy.

Q Do you recall how Cindy came into the picture on ACE matters?

Did someone say to you, ''Cindy, will be talking from now on,'' or was there some other way she came in?

. A I had some conversations with Cindy prior to this time. Well, at least in March, anyway, trying to resolve some, I think, some know-how matters, and I don't recall whether there was any formal statement of any sort that said, Cindy, we will be giving you a call or--Cindy was the person who worked up the figures in Dick's office.

. Q Was there anyone else in Southern Air who would have talked to her besides you?

. A Talked to Cindy?

. Q Yes.

. A Not that I am aware of.

. Q Did anyone below you talk to Cindy, Daisy Saures, anybody?

. A No, not to the best of my knowledge. I mean if there were problems with the East account, it is very possible Daisy could have called Cindy, but I was to be aware of it.

. Q Now, on the previous flights we have been asking about up until now, [redacted] Tel Aviv, you have been empathetic, correct me if I am wrong, that you had not talked to Jim Bastian?

. A Yes.

. Q Did there come a time in connections with ACE, either at the time of this wire transfer or in the months immediately before it, that you had talked to Jim Bastian about ACE?

. A In my prior testimony, I believe I said that when I returned from Panama, Jim had looked at the ACE documents.

. Q Right. Between then--

. A Between then and there, no, most of my conversations, in fact, the majority of them, all of them, and I hate to use the term all, because it is very inclusive. Our conversations were with Bill.

. Q And as for the time period of these March wire transfers, you still didn't talk to Jim Bastian about ACE matters?

. A No.

. Q Maybe it will save time so I know where to ask the question again. Do you have any idea how you have down the chronology you first began talking to Jim Bastian about ACE matters?

. A That I can recall, and there again, I being--excluding a lot of time. It was after the whole thing had kind of come to a screeching halt. 9

. Q You mean after June or later than June 1986?

. A Yes.

. If I had had conversations with ~~J~~him up to that point in time, it may have been along the lines of payments versus, within Southern--for maintenance and support payments versus

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charges and so forth.

Q Do you recall when those conversations took place?

A I don't. I mean, it would have been over time, but certainly the involvement for the maintenance and support didn't start until April. So it would have been some time after April.

Q Good. And as far as not only the fact of needing to make a wire transfer to Corporate Air Services, but who to wire it to, since you had not previously known in this entity, what bank to use, and so forth, do you have any sense as to where that information came from?

A The information came from Dick Gadd's office, whether it was Dick or Cindy, and I think that the comment that was made as doing it through the San Salvador Bank was not working, and that they were going to do it that way.

Q I see. That is interesting.

By not working, you mean you had previously, in January, made a wire transfer [redacted]

A You had asked me about that one. Yes.

Q Was there any further interaction between the time of that January wire transfer and the time of this March wire transfer about the subject of money to Corporate Air Services?

A No.

Q The first time they said [redacted] and the second

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time they gave you a comestic location?

. A Right.

. Q Did you have any sense as to what Corporate Air Services was?

. A No.

. Q You knew it was connected with Central America?

. A I knew it was connected with Central America. I assumed it was connected with Central America.

. Q What else?

. A That is basically it.

It maintained a bank account in Pennsylvania.

. Q Mr. DeGaray's name had been on the [redacted] transfer in January?

. A Right.

. Q Do you know what his relationship was with Corporate Air Services?

. A No, I didn't.

. Q So as far as you knew at the time of the March 4, 1986 wire transfer to Corporate Air Services, those might be two separate entities, Corporate Air Services and DeGaray?

. A Yes. I had no sense of that until I started reading articles in the newspaper, well into the--well around the end of the year, whenever that--after October.

. Q Now, looking at the disbursements, after the March 4, 1986 wire transfer to Southern Air Transport there is something that looks like a February 14, a 2-14. I don't wish to make big things out of little things. Do you have a sense as to--

. A If you will hold on just a second, I think we can clear that up. If I can find the right piece of paper.

I am going to question the date, and say that on my sheet that you given this morning, which is exhibit 27, that shows as being made on 3-6.

I would want to go back. I am sure we have the telex that was sent on that, but the date, the 2-14 date is definitely--

. Q Okay.

. A Appears to be an error.

. Q Let's put it aside as a matter to be clarified some other time.

. A The transfer was made, and it was half of the deposit on the second Caribou.

. Q Can we link that $79,000 wire transfer shown on the Banco de Iberoamerica recap with another wire transfer to Prop Air, which is shown here as dated March 10?

. A Yes.

. Q Can you tell the circumstances surrounding that?

. A Those are the--actually should relate to the deposit that is shown on 1-15 of 86. They should total about that amount. In other words, $159,000 initial deposit on the aircraft, the second aircraft.

The reason it was made in two stages is the second aircraft required more work than the first, and it was just kind of progressing deposits as the aircraft was being prepared to be delivered.

. Q Who was giving you the information on this? Did you talk to Bill Langton?

. A I talked to Bill on these, at least on the first one. I may have gone to him on the second one and indicated that it was--you know, based on my understanding of the arrangements, it was time to make the second one.

. Q You would not have talked to Dick Gadd about this?

. A I recall talking to Dick about that. It was conversations with Bill.

. Q Now, let me give you a choice. At this point you have three different recaps. Which would you prefer to work on?

. A On the Banco--

. Q As we turn to a March 4, 1986--would prefer to work off of this or your original written recap of those?

. A Any of them. It doesn't make any difference. My answer is going to be the same for--

. Q Okay.

. - A You tell me the one that is easier for you.

. Q The one that is the most detailed is the exhibit 27 document, 1822A.

. A Okay.

. Q The analysis of the Banco de Iberoamerica account. This shows outgoing wire transfers on March 4 and March 6, and March 10, and March 21; am I correct?

. A Yes.

. Q Can you describe the circumstances surrounding these wire transfers?

. A The one on March 4, the first one, for--if you will look in column 9 for 1945828, we have already gone over.

. Q That was the Prop Air one?

. A No, that was the one to Corporate Air Services.

. Q I am sorry, you are quite right.

. A Okay?

The next one--

. Q March 6?

. A No, 3-4, which totals 53,268.38 in column 9, was a reimbursement to Southern Air Transport for costs incurred in setting up ACE and aircraft acquisition and parts acquisition up to that point in time. It--and associated with each of these is the bank charge for the wire transfer.

. Q Of course.

. A The one on 3-6 to Prop Air is one that we have already talked about as a deposit.

. Q Continuing on to page 2, is SAT 1923.

. A Okay. On 3-10 is the second deposit that we talked about.

. Q Concerning Prop Air?

. A Prop Air. On 3-21 was a further transfer to Southern Air for aircraft acquisition costs that we paid.

. Q And then at the end of March 1986 occurred the matter which I think you previously described in some detail of the cashier's check for the C-123.

. A Took place at the end of--in April.

. Q In April?

. A Yes.

. Q All right. Why don't we turn to that.

Can you describe the communications from outside, information on that?

. A To the best of my recollection, our conversations on this were limited strictly to conversations with Bill, who said they needed the aircraft in a hurry and if necessary could we provide the funds, they were on there way. And my comment to him at that time was yes, we could do it.

What happened in actuality was that the transfer got switched between ACE and Citizens and Southern, and the wrong amounts ended up in either bank. So that the $75,000 transfer made on it, I think it was made on the 11th of April, was to restore $475,000 that came out of our C and S account.

. Q Although they were in a hurry, they didn't talk, they--do you know who they were? Did you know that meant Dick Gadd?

. A It was Dick Gadd. Or Dick Gadd was involved in it, let me put it that way.

. Q Did you have any clear sense of anyone else involved in it?

. A The Udall Corporation--

. Q Now, had you any previous interaction with Udall prior to this C-123 matter? I don't mean to test you. As I recall, you passed on, am I correct, one of the Caribous when they are purchased to Udall by the bill of sale?

. A Yes, so I would have--

. Q What was your sense of Udall at that time? Did you think of it as a Dick Gadd company?

. A I didn't think if it as a Dick Gadd company. Again, I was looking at Dick as a middle man. Udall was the company that was funding, if you will.

. Q Did you think of it as associated in an activity related to ACE or not?

. A I would have to go back and look at wire transfers. But, yes, it was I think thought of as an activity associated with ACE, because I think there were some wire transfers that came in to either our bank, either C&S or into ACE--

. Q Into Banco de Iberoamerica?

. A Yes. Or C&S, or I am not even sure that they didn't fund some of the flight activity. Again, I would want to go back and look at it.

. Q And had Bill Langton talked to you about Udall?

. A Obviosuly he had because I had drawn up some bill of sales for Udall.

. Q What information would--what would your conversations apart from the details of drawing up the bills of sales about Udall have been?

. A I don't think--I don't recall any way us going into any specifics on Udall, what it is, who it is.

. Q He would have mentioned to you that it was related to Dick Gadd?

. A I don't honestly know whether he mentioned that or whether I drew the inference.

. Q Now, according to exhibit 28, your recap of the Jet Star, C-123 transactions, there was a transaction in April concerning the Jet Star? Can you describe that transaction and communications surrounding it?

. A That was a wire transfer that came in for $150,000. I do recall having a conversation with Bill Langton on that one, where he indicated where he indicated the people that were running the Central American operation wanted to share in the cost of the Jet Star with us, so that they would have to avail themselves to make trips as necessary, and that

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they were sending $150,000 to be used for that purpose.

. Q So that in your mind was Jet Star associated with, what part of the world, their use of the Jet Star?

. A It was with the Central American activities.

. Q Now, this particular recap doesn't tell what documents are underlying what matters?

. A 1667 underlies the first--

. Q I suspect that those documents were not previously made exhibits. Because I don't remember you mentioning the Jet Star. Perhaps you did mention the Jet Star. In any event--

. A With all due respect to the counsel, I did mention the Jet Star and we could go through it, and the 1667 is not a number I made up out of my head.

. MR. KIRSTEIN: It may not have been made an exhibit, but it was certainly produced.

. Mr. TIEFER: By definition.

I thought maybe I attached another copy, but I think I ran out of time yesterday.

. BY MR. TIEFER:

. Q Let's pass over the Jet Star transaction.

. A Go ahead.

. Q And if I could draw your attention to the recap of [redacted] and Tel Aviv activity, exhibit 21, item 5, the April 1986 [redacted] flight, and at the same time I could draw your

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attention to exhibit 14, a series of cash receipts.

Your recap shows on April 21 a cash receipt, document 1758, and an associated wire transfer, looking at 1758, the cash receipt from and 1759 is a credit advice. Do you recall the circumstances surrounding the [redacted] flight and these two?

. A Again, I would have to give you the same answer I gave before. I don't recall the specifics. I know that we did the flight, we were looking for the money, the money came in.

. Q On 1758 there is some handwriting. Do you recognize it?

. A I see it. I don't recognize who wrote that on there.

. Q Not you and not Daisy Suarez?

. A Well, it could be Daisy. I can't say with any certainty.

. Q Now, the underlying cash--excuse me, the underlying cash transfer, 1759, shows this was made at the request of Udall Research, but there is written on the credit advice the words, ''East, Inc..'' Simply, the cash receipt shows East Inc. Do you know who wrote the words, ''East, Inc.,'' on the credit advice?

. A Daisy.

. Q And the cash receipt form?

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. A Daisy.

. Q Do you know where she got the information to write East, Inc., on those?

. A Probably off of invoices 8636.

. Q I don't want you to speculate in the absence of a form I am not putting in front of you. Do I infer from your statement without looking at invoice 8636 you would not want to hazard a guess as to where--I don't mean hazard a guess--you would not want to say, you can not say?

I will put it in the positive. Can you say who provided the information? If you answer is I would want to look at that invoice, I understand that answer.

. A My answer would be I want to look at that invoice but more particularly I want to see if we still had the billing instructions that was behind that to get that information.

. Q You have spoken previously of a sense that existed in your department as to which matters were related. Does looking at these two forms give you an idea as to whether East was considered to cover the [redacted] flights, and Udall was considered to be related to [redacted] flights, or was there such a sense in your department?

. - A East was the broker, if you will, on the [redacted]-Tel Aviv flights. Whether there was a sense in anybody else's mind that East was the same or was working through Udall or what have you, I don't know. In my own mind, there was.

. Q In your own mind obviously--

. A But Udall made wire transfers to us for maintenance activity and support for Central America.

. Q So Udall was in your mind associated [redacted] flights and associated with Central American activity and was it associated with Tel Aviv activity?

. Q I don't recall getting any transfers from Udall for Tel Aviv activity.

. Q Now, in the recap that you provided today, document 29, the recap of maintenance and support operations, there is a wire transfer on April 18 from Udell Research for $200,000. Is that the first payment for maintenance and support operations that Southern Air Transport had received, or had it received previous payments?

. A That is the first direct payment that we received. There were two prior transfers, but they were from the Banco de Iberoamerica account that had originated.

. Q Can you tell the story as to your recollection and how it came about that Southern Air Transport was performing these maintenance and support activities, the ones associated with these wire transfers, March 4, March 21 and April 18?

. A March 4, March 21 were reimbursements of expenses and funds that we had paid up to that point for parts.

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. Q You mentioned that I didn't ask the question professionally. Were those parts acquired simultaneous with the plane or is it you acquired the plane and then you started acquiring parts?

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RPTS DOTSON

DCMN LYNCH

A We acquired the aircraft and then there was a need for additional spares.

Q Did you know at the time you acquire the airplane you would be providing maintenance support for it?

A I didn't.

Q How did you first become aware you were providing maintenance support?

A When we started, I guess when we started getting requests to provide parts for the aircraft. Obviously somebody talked to somebody at Southern and said, can you do this for us.

Q Do you have any idea who talked to whom?

A I don't know. I can--I think probably Dick talked to Bill. But that is strictly a supposition.

Q Was the maintenance and support activity being discussed at daily operations meetings?

A Let me check one thing before I answer that. I think that at the time this $200,000 transfer was made the first C-123 was on our ramp, and we had asked them to do some work on it before we went to Central America. So the answer is yes, we had agreed to do maintenance, at least on that particular aircraft, at the time the $200,000 was transferred, or simultaneously with it.

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. Q Okay. Do you recall Bill Langton talking with you about that?

. A Bill, I am sure, said, look, for $200,000 to come in.

. Q Do you recall him explaining it was in connection with the maintenance activity?

. A Well, I am sure he did.

. Q Now, you previously told me not to ask about Jim Bastian until we came to the April maintenance and support activity.

. A I don't recall. To maybe get ahead of you, I don't recall talking to Jim about it at this point in time. Jim--if I can----

. Q Sure.

. A ----maybe clarify this. Jim really leaves much of the ongoing operations, day to day, to Bill, and I am sure that Jim and Bill talked back and forth. But Jim really doesn't, other than perhaps ask questions from time to time, become involved in the day to day operations.

. Q Okay.

. A He may tell you something differently, but----

. Q You did talk to him about the maintenance in connection with the maintenance and support activities, didn't you, to Jim Bastian?

. A To Jim?

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. Q Yes.

. A But not initially. And it had been going--as I say, there may be a question raised. Are we being paid, how are we tracking this? This type of thing.

. Q You mean he might have----

. A He might have asked this type of question.

. Q He might have asked you questions about what?

. A As I said, are we being paid, how are we tracking it.

. Q This wasn't initially in April is it your sense. It was when?

. A I would think it was after we got into it but I couldn't tell you for sure when it started. But there were never----

. Q It would have been before June though?

. A It may have been, it may not have been.

. Q It might have been as late as June he started talking to you?

. A It might have been June.

. Q Might it have been after than June?

. A It is possible. I just don't recall.

. Q Once he began asking you these questions, did he ask them rarely or with some frequency? What was the----

. A Rarely and frequently?

. Q I am asking you how frequently he asked you.

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. A Maybe once a month, maybe once every six weeks. It was not frequent.

. Q Now, returning to the recap of [redacted] and Tel Aviv activity--this is premature, and it is very useful to have as chronological an account as we can. Staying with the Banco de Iberoamerica recap, this shows on the disbursements column, this is Exhibit 6, Document 1442, a May 1 wire transfer to Corporate Air of $36,000, and then a June 6 transfer to Corporate Air of $58,000. Can you describe the circumstances of these transfers to Corporate Air.

. A These at that point in time were made in response to a request from Cindy Dondlinger for payment of the monthly operating salaries.

. Q You had a sense by then of what this money was being used for?

. A I think I had a sense from, actually from March on what it was being used for.

. Q And your sense was?

. A That it was apparently associated expenses.

. Q And do you know who had told you that in March?

. A I want to say it came out of conversation with the person that requested the March 4 transfer, which I think was probably Dick.

. Q And had you known from the beginning that you would be asked to make periodic payments, monthly payments, or is that something you only learned as the second and the third were made?

. A I think that came along as the second and third were requested.

. Q About when do you think you began knowing you were going to make periodic payments?

. A I think after I was asked to make the second one.

. Q Now, we can go to the recap of [redacted] and Tel Aviv activity, and we take the May 1, 1986 Tel Aviv flight. There are a large number, perhaps--you don't need to take my characterization. There are several wire transfers referred to in connection with the Tel Aviv flight. Would it be most useful if we pulled them out and looked at them at the same time, or do you have a recollection that you wish to deliver without looking at them?

. A It is going to be much along the lines of what I have said earlier. I knew what we were getting for those flights, $642,000. That was an advanced payment of $350,000 made, which was a portion of a larger wire transfer. Then there was a subsequent transfer of $200,000 and a subsequent transfer of $92,000, which was part of a $242,000 wire transfer.

. Q If we look at Exhibit 12, which is the cash receipts and underlying wire advises, and ignoring, development ignoring IAS on the top line, I see in the left

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column where the name is listed on the cash receipts form is dated May 23, 1986, a series of East, Inc.'s and then one crossed out, and the word Udall written in. Can you explain who wrote those and why they were written?

. A Those were written by Daisy and she probably was just trying to share the wealth, if you will. The last one was East, this one will be Udall. There is----There is no----

. Q Why would she have crossed one out and put the other one in? You could give me the answer, by the way, as you have others, that there is an invoice number and you would want to look at accompanying invoice but if you know the answer----

. A I would have to go back and look and see what--what the reason is.

. Q You don't have a sense as to information coming down from Bill Langton or from any other source as to why, to put in East or Udall at this point?

. A There may have been an instruction to bill it to Udall Corporation. I think we have in one of the documents, and I don't think you have it here, we have that particular invoice. I am not sure what the number is.

. Q And is this another type of billing on which there may be a billing instruction?

. A Yes. There may be.

. Q Now, looking at the underlying wire advices, they

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show a series of companies making the transfers. Page 16 shows a May 23 wire advices from Albon Value Corporation. On page 1689 there are two more from Albon Value Corporation, and then finally on 1691 there is one from Hyde Park Square Corporation. Do you have any recollection of yourself or anyone else in your department having any knowledge about, or any reaction to these names?

. A I really don't. Again, if you take the position that East was a broker and served as the middleman, my concern was we got the money for the activity that we did.

. Q Were you aware that the money was being transferred from a series of entities? In one instance previously anonymous, in this case from a variety of entities, or were you unaware of that?

. A I think I was really unaware of it until I started to put this all together. Then it almost looks like there was a corporation of the month that was handling it.

. Q Do you have any reason to believe that someone under you, such as Daisy Saures, was aware or unaware?

. A They would have no reason at all to question it or to even--again, as long as they were to find the money.

. Q And the recap reflects that in the case of two of those wire transfers some money in the wire transfer was diverted, that is the $410,000 wire transfer, part of it was applied to Tel Aviv flights and the $242,000 transfer,

$2,000 was applied. Were three conversations surrounding those diversions?

. A I don't recall specific conversations surrounding those, although obviously it would have to have gotten--obtained the information somehow, particularly on the first one for $410, and my option is that I obtained it from Bill Langton.

The second one pretty much speaks for itself.

The third one is not hard to figure out.

. Q When you say that, who would the information have come from on the third one?

. A Well, if I knew that they owed me $92,000 and I got $242, I may have been told to look for $156,000 towards maintenance and support.

. Q By whom? Told by whom?

. A By Bill.

. Q You don't have any belief that you were told by Dick Gadd that the money was being applied in different ways?

. A No, absolutely not.

. Q And is there anyone else other than Bill Langton who you think would have been told about these matters?

.- A No.

. Q But you don't have a specific recollection of him telling you?

A I don't have a specific recollection of him telling me. A lot of times the way information passes is Bill passes me in the hall and he will say, ''there is $150,00 coming for maintenance work. Let me know when it is here.''

So it is a small--as I said before, it is a small company, it is very informal, and as long as the funds hit the till, that is my concern.

Q You said two there were types of Dick Gadd companies, you know, one was the Ace type and the other was another type. Am I incorrect?

A What I said was Dick Gadd was a broker and some things may have passed through him and some things may have bypassed him. I don't recall the specifics that are leading up to our question. You know, it is kind of like going to buy an airline ticket, you can pay with a credit card, you can pay with cash, you can pay with a check, you could charge it some other way. Maybe you just got a bunch of blank tickets stock, can you run it off?

One you get to the airline, they don't really care how they got paid for it as long as they have got a paid ticket. That is not the concern of the revenue accountant. His concern is, do I have proper dollars on this ticket to allow this guy to fly.

Q There was at least an early point where you identified closely with Ace, leaving the thought at one

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point of perhaps--your phrase was, ''I was Ace''----

. A I still say that. Ace was not a subsidiary of Southern Air Transport. It was the----

. Q What was it?

. A Ace was a bank account for all intents and purposes. That was the one glaring error in the article that was in the Herald after my last testimony.

. Q I am not familiar with the article. Though I would be interested in reading it. When you say after your last testimony, you mean there was an article in the Herald after you gave a deposition?

. A Yes. Two days afterwards that pretty much covered much of the ground that we covered on Ace.

. Q Let's go off the record on this.

(Discussion off the record)

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RPTS CANTOR
DCMN MILTON

[3:45]

BY MR. TIEFER:

Q Continuing the examination of the May, 1986 Tel Aviv flight, am I correct--correct me if I am wrong--that it was at this point that you became aware, or was it even later than this point that you became aware, that these flights continued past Tel Aviv?

A You are asking me after the May flight?

Q Yes.

A No, it was after the February flight.

Q After the February flight. So by the time of the May flight you knew that these flights continued past--

A I knew that there was activity beyond Tel Aviv.

MR. KIRSTEIN: You refer to the flights going beyond Tel Aviv. I just wanted the record to be clear that you don't mean that Southern Air airplanes went beyond Tel Aviv.

MR. TIEFER: The witness's answer is pretty clear.

BY MR. TIEFER:

Q Do you want to explain what you mean by activity beyond Department of Education?

A I realized that we had crews that were engaged in some sort of flight activity not with our aircraft beyond Tel Aviv, and maybe I shouldn't even say flight activity. In some sort of activity, because they were flight crews, the assumption is that it was flight activity.

. Q You had learned that after the February flight?

. A Yes.

. Q Did you know in advance of the May flight that there would be such activity?

. A No.

. Q Was it a matter that you again learned after the flight of such activity?

. A Yes.

. Q And how did you learn of such activity?

. A Because there was extra pay for these people.

. Q And who discussed that with you?

. A Bill Langton brought me a list of the people and the dollars amount that they were to be paid.

. Q Did he tell you anything about why they were being paid, or anything else in those terms?

. A He didn't really go into any great detail on it.

. Q What did he say?

. A Basically he said that they had performed a service. They had stayed over in Tel Aviv. I knew that because I saw expense reports and so forth that came back, and they had done something while they were there and they

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were entitled to extra pay for doing it. It was not a great amount. In fact, in retrospect, I think for what they were asked to undertake, it was damned little.

. Q Were you aware of [redacted] flight in connection with the May Tel Aviv flight?

. A Sure.

. Q And what was your understanding?

. A Well, my understanding was that we were flying again from Kelly Air Force Base to Tel Aviv, that on the return there was a back-haul out of [redacted] Again I assume we were carrying hazardous material, I don't know for sure what it was. I wasn't on the airplane. I didn't see the manifest.

. Q Now, your item 7, the May, 1986 Tel Aviv figures and so forth do not separately break the Tel Aviv flight from the [redacted] flight. Can you explain how financially the two matters were being handled?

. A It was one flight as far as we were concerned. It was a ferry into Kelly from wherever the aircraft were located.

. I think one was in Phoenix and one was in Oakland. I guess one was in Brownsville at that time. It was live from Kelly to Tel Aviv, then a ferry back [redacted] live to [redacted] and then ferry back into position.

. Q Maybe because it was so obvious, it didn't occur.

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Did you talk to anyone about the fact that it was to be treated as one, or was it clear from the very beginning without even discussing it with anybody that it was to be treated as one?

A To the best of my recollection, it was one flight. I mean it was one charge. The invoicing did not break it out.

Q You didn't discuss with Bill Langton the fact that it was one unified matter?

A Everything, every indication I had was that it was just one particular item.

MR. TIEFER: This is a good place to stop.

[Recess.]

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RPTS DOTSON

DCMN DANIELS

BY MR. TIEFER:

Q Mr. Mason, you described your conversations with Jim Bastian as being on the order of once every month or once every six weeks during the spring of 1986 and concerning aspects of maintenance work being performed for the C-123 and related plans.

Can you carry that forward in successor months as to what your conversations with him might have been on either in contra-related matters or in Iran-related matters?

A It is extremely difficult for me at this point in time to recall specifics of conversations I might have had with him. Let me say that from June through probably at least the first part of September, maybe the middle of September, I worked with Jim very closely on some financial projections and some proposals to purchase some 0100 aircraft, and there may have been occasions through that time when we did touch on. I don't think we ever discussed Iran, but perhaps discussed the maintenance contract or the ongoing support for the contras, but I can't recall any specifics that he and I might have talked about.

It certainly was not a lot of conversation between us on it.

Q Now, the Banco de Iberoamerica recap, Exhibit 6, shows a June 26 wire transfer of $10,000 with Prop Air label, and this is in the disbursement column.

. Do you recall the circumstances of that transfer?

. A Yes, I do. Prop Air was--as part of the aircraft purchase agreement, was to deliver the aircraft [redacted] and I believe the second came through Miami before it went South and we agreed--by ''we'' I mean ACE--agreed to reimburse them for their expenses connected with that. And that was a final billing to clean up the purchase of those Caribous.

. Q Did you talk with ~~Bill~~ Dick Gadd or Bill Langton about that?

. A I really think my conversations in that, other than to tell Bill I was cleaning it up, were with Frank Serby.

. Q Did he have an ongoing role with respect to ACE matters?

. A No, his role was limited strictly to the purchase of the Caribous, but he had been the one who had gone to Canada to sign the acceptance documents and he was the one that had the relationship with the people at Prop Air, so it was natural that that would move through him.

. Q Would he have had to talk to either Bill Langton or Dick Gadd to get his instructions about how to handle that?

. A You are asking me to give a supposition--from my own knowledge. I don't recall any specifics, but it is highly unlikely that he would have completed the project without at least talking to Bill, who had to have sent him off on it.

Q Now, at this point I am not going to continue in detail on each chronological matter, but to skip ahead to the August 1986 recap of [redacted] and Tel Aviv activity. And in the document which is Exhibit 9, but has lists--I believe this is your copy. If you could turn to page 454 and 455, 454 being a cash receipt dated September 11 and 455 being a credit advice.

Can you describe the circumstances surrounding these flights and these financial transactions?

A This was a flight where we provided crews only and I believe that Bill told me that the amount we were owed for it was $25,000 and, very honestly, this is the only transfer that came in around that time that I could take $25,000 from and assign to that particular project. There wasn't a separate $25,000 transfer that came through.

So what I did was assign.

Q Did you know in advance of the use of the crews that there was going to be this crew's service or did you only find out after the fact?

A I may have been told a few days in advance that the crew was going to be used. I don't recall. And it may have been for the October flight that I was told in advance. For one of those I knew in advance they were going.

. Q Now, the cash receipt, No. 454, has the word 'ACE'' on it. Do you know who wrote that?

. A That would have been--it doesn't look like Daisey's. It would have been whoever was doing the cash receipt forms at that particular point in time.

. Q One question and then we will confer.

. Do you have any idea where the information for that person to write ACE on that cash receipt would have come from?

. A Again, I am going to give you the answer I have before. I would assume that Bill told me to be on the lookout for a transfer of $50,000.

. Q And he would have told you it was related to ACE. Is that what you are saying?

. A That was an implication. You know, because there was no flight activity per se with Southern Aircraft, it would not get charged to a flight account.

. So it would not be unusual for him to, in requesting funds, say we got the $25,000 for what we did in August for you and additionally we need another amount to help with the maintenance and support.

. Q Now, ACE has not previously appeared in connection with the Tel Aviv flights. Can you explain why it appears--

. A I think you are reading more into it than there is. I don't think that has any significance at all other than an internal accounting pot that we are going to put it in.

. Q But you think that the implication to use ACE came from Bill Langton?

. A The implication to use ACE was one that said there is $50,000 coming, be alert for it. The fact that I have said $25,000 of this really should have been a reimbursement for the Tel Aviv flights in August really bears no significance to the fact that this says Ace.

. If you are trying to tie the two together, it is--

. Q I am asking where the information came from for a person to write the word ''ACE.'' The word ACE has not been written on previous pieces of paper concerning Tel Aviv flights.

. A Let me say that I told them to put it to ACE.

. Q And you think you did it after speaking to Bill Langton?

. A Well, Bill, I am sure, would have told me to be on the lookout for $50,000. The split out of the $25,000 figure here came much after the fact, when we were looking with the FBI to try to figure out how we got paid for the 2, the August and the October flight.

. The October flight, of course, we know we never got paid for.

. Q Can you explain further what your relation with the FBI was that caused you to--you just alluded to a later discussion or thought or search or whatever.

A Well, as you may be aware, I was interviewed by the FBI several weeks ago, and their questions centered on the Tel Aviv [redacted] activity, and the question came up as to where is the payment for the August flight? Because we knew or the activity--not the flight; I shouldn't use the word flight. The August activity.

Q Crew activity?

A Crew activity. And you know, looking through the transfers that came in at that time, I think maybe the answer to take it out of this may have come from Bill, who was present at the time saying that that money was transferred and it probably was a part of this transfer. There is not a $25,000 transfer per se isolated that came in in this time frame.

Q Is there any other piece of paper that Southern Air Transport has other than this recap which reflects the distribution of that $50,00?

A Absolutely not.

MR. TIEFER: Off the record.

[Discussion off the record.]

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RPTS CANTOR

DCMN MILTON

[5:45]

BY MR. TIEFER:

Q I am going to go back in the chronology to a point I skipped over, June, 1986. You previously said at a time we were going over this chronology that there came a time that you felt that the operation was shifted from Dick Gadd to Bob Dutton. Can you describe the circumstances surrounding that shift, what communications you received, who told you what?

A Well, I didn't receive a communication from Dick Gadd's office to make a payroll transfer. The name of Bob Dutton started to appear, and I don't remember just when I first heard that, but it was somewhere along in there.

Q In June of 1986?

A I'm not saying it is June. It is June-July, somewhere in there.

Q Was it mentioned to you by Bill Langton or in some other context?

A It may have been, and I don't know what the timing of this, it may have been, it may have come from Bill Langton. It may have come from Bill Cooper, who was talking about purchase of the second C-123, which we were not

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involved in.

. Q You spoke to Bill Cooper?

. A Yes, sir.

. Q Many times?

. A Many is relative.

. Q How many?

. A Ten, eleven times maybe. When he was in the facility he would quite often stop by my office.

. Q Did anyone else tend to be present during these conversations?

. A Occasionally.

. Q Who?

. A It is hard for me to remember. Let's say a fellow by the name of Bryan Daggett, who is my management reports and analysis. Most of the time they tended to be just general bull sessions, if you will, not necessarily directed at what Bill was doing.

. Q And it is possible you think it was Bill Cooper who mentioned it?

. A It could have been Bill that mentioned it.

. Q Did he talk to you about other matters concerning the operation down there in Central America?

.- A Had ongoing conversations about the shortage of funds to buy fuel.

. Q Was this in the context of the cash that these people would sometimes pick up?

. A Yes, my reluctance to give it to him if I didn't feel I was far enough ahead of the game.

. Q How had you received your instructions to give cash out to these pilots or whoever?

. A It generally would arise from somebody passing through Miami and being requested to take some cash down with them. My usual manner of responding to that would be to go to Bill Langton and tell him we had this request, and ask him if it had been prepared, and if we should do it.

. Q Did you go to him on each such cash request, or on most of them?

. A On most of them.

. Q And did he agree to all of them that you went to him on, or did he ever say no?

. A He never ever eventually said no. There were times when he wanted to call his contact, and find out about transfer of funds to see that we were covered.

. Q Did he tell you how that contact was? Did you find out one way or another who that contact was?

. A I think, and again he never told me, but I think he was talking to Bob Dutton.

. . Q And what was your basis for believing that he was talking to Bob Dutton?

. A He may have mentioned it. I don't recall specifically.

. Q Did the maintenance activity come to a sharpened or a tapering end? It had been continuing for a period of time on behalf of Southern Air Transport and then what happened?

. A It came to a complete and sudden end when the C-123 was shot down in Nicaragua.

. Q Backing up and looking at the months June, July, August, September.

. A There was an ongoing support service that was performed.

. Q During those months, correct me--excuse me. Am I correct that the Banco de Iberoamerica account does not reflect a great deal of activity in the latter part of the period we have just alluded to?

. A That's correct.

. Q Today you have produced a recap of maintenance and support operations, Citizens and Southern, which is Exhibit 29. Does this reflect a number of transfers to cover the expense of this maintenance and support operation?

. A It reflects 100 percent of the activity to cover that particular activity.

. Q I see--you may wish to refer to your own--you have it. It refers to wire transfers in July, August, several in September. Do you recall the circumstances surrounding each of these wire transfers?

. A Again I am going to go back to what I said earlier. I would be told that there was dollars coming for the maintenance activity, and to be looking for them. On some of those occasions, I may have even gotten to Bill and said, We are getting short in the account and we need to ask for more funding to continue the activity.

. Q During this period you never talked to Dick Gadd or Bob Dutton about such transfers of funds?

. A No.

. Q Your recap shows the transfers being made from a variety of entities, Credit Suisse, ACE, Toyco. Did you note at the time that it was coming from a variety of entities?

. A The only is--looking at your list there--the only four that I knew or was aware of where they were coming from are the four that I originated myself, which are the first two on the list, in March, the September transaction of 95,000, and the December transaction of 45,000.

. Q I see a December transaction of 45,000.

. A Yes.

. Q Can you tell me the circumstances of the December transaction of 45,000?

. A Yes. I got back to work--

. Q From the operation?

. A Yes, at the end of November, and in my pile of

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incoming paperwork was--I take it back.

In the statement, the December statement which I got two thirds of the way through, November was an advice of transfer of $46,000 and some change to the ACE account at Banco de Iberoamerica that I had no knowledge as coming and in asking Bill I had no knowledge was coming, although if you look at it, the indications were it appears like that is where it ought to have gone. Since we were running, since we knew we were short on the maintenance cost, I transferred 45,000 of that on up to Southern to help them cover that shortfall.

Q Did you have a conversation about this with anyone except Bill Langton?

A Bill is the only one I talked to on it.

Q And what more was said in the conversation besides I don't know and him saying I don't know either?

A I don't know, and I am sure whether he had talked to anybody else to see if anybody else had any information on it. I might say that from, oh, the first of June on, we experienced a great deal of difficulty with transfers that were going into Banco de Iberoamerica. We chased some for as long as a month before we could verify that they were there, and I don't know whether it was something that was hung up in their system for a while or not, but suffice to say the paperwork seemed to support the fact that it should

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be there, but nobody knew who or when.

Q Is one possibility that the bank was being uncooperative? Is that what you think is one possibility? You are alluding to difficulties but not explaining to me why you sensed difficulties.

A The problem as it was explained to me was that they were not giving proper routing instructions when the wire transfers were originated, so they were getting hung up in New York.

Q Who explained this to you?

A This was Helena Fernandez.

Q And she thought the problem was routing instructions in New York?

A Routing instructions at the originating bank.

Q And then the transfers were being hung up in New York?

A Yes, because they did not know--they had incomplete instructions. They knew that they needed to go to Banco de Iberoamerica. One thing you need to realize is that probably Banco de Iberoamerica maintained a corresponding relationship with the New York bank, I think it was Irving Trust, but I am not sure, and I say that because that is who they asked me to route transactions through if I could, and if it came from overseas through that bank, it could immediately be put in their bank there. It didn't have to physically be transferred and advice sent to Panama in order to complete the transaction, and advice would have to be sent at some point in time.

Q I am trying to understand whether the wire transfers that were getting hung up were incoming or outgoing.

A I had problems with both.

Q Was it your understanding that money, for example, from--back up.

You knew that on many occasions in these matters, money had come from Switzerland. You had credit advice. Is it your understanding that money from Switzerland that goes to Banco de Iberoamerica goes through its New York correspondent bank?

A That, if I recall the advice I have seen, they did go through a New York bank.

MR. KIRSTEIN: Do you want to mark that First Chicago? We can give it a number and mark it if you want, and then we will have it in the record.

MR. TIEFER: By all means.

MR. KIRSTEIN: Since it goes with this cash receipt, which is 472, why don't I mark this as page 472-A-SAT, that is capital A, and then I don't know what the next exhibit number is.

MR. TIEFER: We will mark that RHM-30.

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[The following document was marked as Exhibit RNM-30 for identification:]

********** COMMITTEE INSERT *********

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BY MR. TIEFER:

Q Why don't I ask the witness to identify it.

I am showing you a document that has just been marked 472-A, and ask you if you can identify it.

A This is the weekly statement that we received from the First Chicago Bank which reflects a $270,000 wire transfer incoming on the 14th of February.

Q And does it show who originated, what entity originated that transfer?

A It appears to have been originated by CS. It says, ''Fine Vestments Limited.''

Q Could that be CSF Investments?

A That would make it read better.

MR. KIRSTEIN: I will send this to you tomorrow and then you can give it to the reporter to include in the record.

MR. TIEFER: In the absence of a Xerox machine, that seems the appropriate thing to do.

BY MR. TIEFER:

Q On the matter we were discussing a few minutes ago, and I believe this has already been made part of a previous exhibit, I show you a document that is SAT-493 and it says ''check request'' at the top. It gives the date of July 10, 1986 in the amount of $7500 and the name William Cooper. I ask if you can explain what this form is.

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. A This was a request from Bill Cooper for cash to go to take to Central America. As you may or may not be aware, there is a limit of $10,000 that you can legally take out of the country at any given time. I did not have sufficient petty cash funds on hand to advance him that, and what I did was issue him I think--I'm not sure of this, but I think--$2500 in cash and give him a check for $7500 which he took to the bank and converted.

. Q You mentioned in the previous session that Bob Dutton received on one occasion that you met him, received cash. Do you know what form his receipt of cash took, whether he received cash from you or a check?

. A He received cash from me.

. Q Is the same form used whether you give a check or give cash, or are there different forms?

. A It is almost like a receipt book that a person signs if they receive cash.

. Q And do you keep such receipt books?

. A Yes.

. Q How do you book such an expense as the giving out of cash?

. A This would be booked through a journal entry at the end of the month, and it was booked into whatever this exhibit is.

. Q You are pointing to Exhibit 7, which is?

. A Which is the analysis of the pass-through account.

. Q How is that done? The receipt book no doubt would contain--

. A It is basically done the same way as the revenue is done. In other words, a spread sheet is made up. It is booked in as a single line journal entry to each account. You can give cash advancements for lots of things. If we are going to an out-of-the-way port where we have to pay cash for fuel or ground handling, we have to put cash on the airplane for that. We have travel advances that are passed out.

. Q Is the spread sheet of a particular document that is prepared each month, or the document that you start with you use cash receipts?

. A Start with a cash receipt.

. Q And then you have a spread sheet?

. A And then you have a spread sheet which is similar. It is an analysis pad, the same thing that we talked about.

. Q In the case of compensation of cash to Robert Dutton, would the spread sheet have Robert Dutton's name on it?

. A It may or it may have just a disbursement to ACE. On that particular one, actually, I think it was disbursed to him on the weekend, and I think I was the one that disbursed it to him, and I may have signed out before I turned it over to him.

. Q So what would the receipt show?

. A So the receipt may show my name and I in turn have the receipt from him for it.

. Q Where would your receipt from him be?

. A It would be probably in the ACE file some place. Have we seen it? We haven't seen it.

. Q Were there other instances in which instead of receipts from the person receiving cash, there would be a receipt that was signed by someone other than the person receiving the cash?

. A I think that is the only instance that I can recall.

. Q And why did you not have him sign a receipt form the way everyone else signed a receipt form?

. A Because I had signed out for it the day before. I had drawn it from the petty cash box the day before.

. Q And what was the sequence? What caused you to draw that out the day before?

. A Because I knew he was coming in the next day. I could have, I guess should have had him sign directly for it.

.- Q Did you know because he had called you?

. A No. I knew that he was coming in to pick it up. There is no way I carry that amount of cash on hand as a regular basis, so we had to go through the whole procedure of picking it up, which is filling out the proper form for the bank. If I pick up more than $10,000 cash at the bank, I need to fill out a form. It is filed with IRS that says I did this.

. Q And you knew he was coming because he had informed you or because Bill Langton to?

. A No, Bill Langton had told me.

. Q Tell us chronologically that Bill Langton told you?

. A Told us he was coming, I think he wanted to pick up I think it was $25,000, and that I should have it ready for him, and he would be in either on a Friday or a Saturday. Well, he didn't show up on a Friday.

. Q Once you were told this by Bill Langton, what did you then do?

. A Filled out the necessary forms to draw that amount of money from the bank, and had a check drawn, and went up to the bank and picked it up.

. Q You picked it up yourself?

. A I think I did, because I don't like to have--there is just a couple of other people that can pick up funds, but when it is that amount of money, I don't like to send them out on the streets of Miami with it I don't even like to do it myself.

. Q And did this produce paperwork, the act of obtaining the money?

. A Sure. I had to generate a check request for petty cash.

. Q When you filled out forms at the bank, did you keep copies of them?

. A Yes.

. Q And where did those documents come?

. A Those documents are in an IRS file in my drawer.

. MR. TIEFER: It is 6:15 and I have reached an appropriate stopping point.

. George.

. THE WITNESS: I want to go back and check my records, but this $50,000 transfer that we talked about--

. BY MR. TIEFER:

. Q You are talking about a cash receipt dated September 11, 1986, which is 454.

. A In my mind that is about the time that that advance was made to Bob Dutton, which would make sense to me as to why I got the $50,000, the 25 that I gave to him and 25 for the August Tel Aviv activity.

. Q Did that occur to you previously or did you just put those two things together?

.- A I just put the two together.

. Q So does that mean that when you answered previously--I asked previously whether there was any

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documentation concerning the 25,000, and at the time you said you didn't know of any.

A I really don't. I'm guessing at that.

Q Let's not ask you to guess.

A I still would be guessing at it if I said, because I think that while I might be able to document one of it, I don't think that I could document specifically the flight activities.

Q To clarify your answer on this subject, I think you are saying you want to check your records.

A Yes.

Q That is understandable and rather than guess, you will check your records.

A Yes.

MR. VAN CLEVE: For the record, I am George Van Cleve, Deputy Republican Counsel from the select committee.

Mr. Mason and I have met previously in Miami. I don't think I have any questions for Mr. Mason. I appreciate your cooperation.

MR. TIEFER: That concludes the deposition.

MR. KIRSTEIN: There was one thing I wanted to clarify. A while back, just before we marked Exhibit 30, when Mr. Mason was talking about his problems with incoming and outgoing transfers from Banco--

MR. TIEFER: Iberoamerica.

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MR. KIRSTEIN: Iberoamerica.

BY MR. KIRSTEIN:

Q I think Mr. Tiefer said you knew payments were coming from Swiss banks, and it just wasn't clear in my own mind if Mr. Mason had ever established that that money, that he knew whether that money was coming from Swiss banks, because it always seemed to pass through some U.S. bank.

Do you recall, Bob, if you knew at the time that this was going on whether those transfers to ACE were coming from a Swiss bank account?

A I would want to go back and look at the specific transfers, but in thinking about the Iberoamerica account, I think they either went through a New York bank or were made on what to me looked like an internal transfer form at Iberoamerica. Those documents are in your possession.

Q If I recall correctly, and I am not the witness, they are an exhibit that we did in Miami but not what I reviewed today.

That concludes the deposition.

[Whereupon, at 6:20 p.m., the deposition was concluded.]

recessed until 12:30 p.m. the same day.]

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SAT 1823

AMALGAMATED COMMERCIAL ENTERPRISES, INC
Analysis of Banco Iberoamerica Account

Pg 2

Date 1986	Initiated By	Source of Funds	Service Performed	Check or Transfer TO	Check Number	Amount	Transaction Amount	Reference
3.6	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	624	624	A14
3.10	R Gadd, W Langton	Banco Iberoamerica	Deposit on Caribou	Propair Inc	W/T	7950000	7954250	A15
	Banco Iberoamerica	Banco Iberoamerica	Bank Charges	Banco Iberoamerica	Debit Memo	4250		A15
3.21	R. Mason	Banco Iberoamerica	Aircraft Acquisition	Southern Air	W/T	1107943	1107943	A16
4.3	R Gadd	Banco Iberoamerica	Payment ? (for R. Gadd)	Corporate Air Services	W/T	2686546	2690296	A17
	Banco Iberoamerica	Banco Iberoamerica	Bank Charges	Banco Iberoamerica	Debit Memo	3750		A17
4.4	Banco Iberoamerica	Banco Iberoamerica	Bank Charges	Banco Iberoamerica	Debit Memo	1000	1000	A18
4.7	R. Gadd	Banco Iberoamerica	Payment ? (R. Gadd)	Corporate Air Services	W/T	2500000	251875	A19
	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	1875		A19
4.10	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	500	500	A20
4.11	R. Mason	Banco Iberoamerica	Payment of C-123 Purchase	Southern Air	W/T	7500000	7504250	A22
	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	4250		A22
4.14	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	1500	1500	A23
4.14	R. Gadd, W. Langton, F Zenke	Banco Iberoamerica	Balance due on Caribou	Propair Inc	W/T	39657007	39672650	A24
	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	13643		A24
5.1	R Gadd	Banco Iberoamerica	Payment ? (R. Gadd)	Corporate Air Service	W/T	3642678	3646428	A25
	Banco Iberoamerica	Banco Iberoamerica	Bank Charges	Banco Iberoamerica	Debit Memo	3750		A25
6.6	R. Gadd	Banco Iberoamerica	Payment ? (R. Gadd)	Corporate Air Services	W/T	5895597	5899597	A27
6.9	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	500	500	A28
6.26	R Gadd, F Zenke, W Langton	Banco Iberoamerica	Aircraft Acquisition	Propair Inc	W/T	1096360	1096360	A30
6.	Banco Iberoamerica	Banco Iberoamerica	Bank Charges	Banco Iberoamerica	Debit Memos	16816	16816	A31
7.9	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	1000	1000	A32
7.26	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	1000	1000	A33
9.4	R. Mason, W Langton	Banco Iberoamerica	Aircraft Maintenance	Southern Air	W/T	9500000	9504250	A34
	Banco Iberoamerica	Banco Iberoamerica	Bank Charge	Banco Iberoamerica	Debit Memo	4250		A34
12.17	R Mason, W Langton	Banco Iberoamerica	Aircraft Maintenance	Southern Air	W/T	4500000	4500000	A36
							[illegible]	
								306524

EX RMM-27
2-11-87 Drn

SAT 1822-A

Exhb
1-14-87
Pg. 1

AMALGAMATED COMMERCIAL ENTERPRISES, INC
ANALYSIS OF BANCO IBEROAMERICA ACCOUNT

DATE	INITIATED BY	SOURCE OF FUNDS	SERVICE PURCHASED	CHECK OR TRANSFER TO	CHECK NUMBER	AMOUNT	TRANSACTION TOTAL	REFERENCE
	INCOMING							
1985 11 8	INITIAL DEPOSIT	SOUTHERN AIR	OPENED BANK ACCOUNT	BANCO IBEROAMERICA	CASH	4000.00	4000.00	A01
11 14	COMPAGNIE DE SERVICES FIDUCIAIRES SA	WIRE TRANS - CHASE MANHATTAN	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	45000.00	45000.00	A02
1986 1 22	MANUFACTURERS HANOVER TRUST CO.	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	230000.00	230000.00	A06
1 31	CREDIT SUISSE - GENEVA SWITZERLAND	WIRE TRANS - MFG HANOVER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	150000.00	150000.00	A08
4 7	CREDIT SUISSE - PANAMA	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	29000.00	29000.00	A19
4 10	ORDEN LOS MISMOS	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	475000.00	475000.00	A21
6 6	ALBON VALUES CORP	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	57022.03	57022.03	A26
6 12	UDALL RESEARCH CORP	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	10241.57	10241.57	A28
10 22	UDALL RESEARCH CORP	WIRE TRANSFER	FUND DEPOSIT	BANCO IBEROAMERICA	W/T	46892.15	46892.15	A35
							1544325.25	
	OUTGOING							
1985 11 21	BANCO IBEROAMERICA	BANCO IBEROAMERICA	CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	2.50	2.50	A03
12 18	R H. MASON	BANCO IBEROAMERICA	BONDS AND GENERAL POWER OF ADMINISTRATION	INTERTRUST	241801	232.33	232.33	A04
1986 1 15	R GADD, W LANGTON, F ZASKE, R MASON	BANCO IBEROAMERICA	DEPOSIT ON CARIBOU	PROFAIR INC	W/T	159000.00		
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	62.19	159062.19	A05
1 24	R GADD, W LANGTON, F ZASKE, R MASON	BANCO IBEROAMERICA	COMPLETE CARIBOU PURCHASE	PROFAIR INC	W/T	371000.00		
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	128.44	371128.44	A07
2 17	BANCO IBEROAMERICA	BANCO IBEROAMERICA	BANK CHARGE TELEGRAM	BANCO IBEROAMERICA	DEBIT MEMO	60.00	60.00	A09
2 21	R. GADD	BANCO IBEROAMERICA		EDWARD DE GARAY	W/T	20000.00		A10
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	37.50	20037.50	A10
3 4	R. GADD	BANCO IBEROAMERICA	PAYROLL? (PER R GADD)	CORPORATE AIR SERVICES	W/T	19421.50		A11
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	36.78	19458.28	A11
3 4	R. MASON	BANCO IBEROAMERICA	AIRCRAFT ACQUISITION - PARTS	SOUTHERN AIR	W/T	53225.88		A12
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	42.50	53268.38	A12
3 6	R GADD, W LANGTON	BANCO IBEROAMERICA	DEPOSIT ON CARIBOU	PROFAIR INC	W/T	79500.00		A13
		BANCO IBEROAMERICA	BANK CHARGES	BANCO IBEROAMERICA	DEBIT MEMO	42.50	79542.50	A13

2-10-87

Southern Air Transport Inc

Recap of Jetstar and C-123 Transactions

1) Jetstar

Cash Receipts From Debtors 4-14-86

Wire Transfer to Citizens & Southern thru Chase Manhattan from Credit Suisse for $150,000.00

2) C-123 Transaction

Cash Receipts From Debtors 4-3-86 and 4-11-86

Wire Transfer from Citizens & Southern from ACE for $75,000.00

Wire Transfer to Citizens & Southern from Credit Suisse for $400,000.00

Cashiers Check for $475,000.00 drawn on Southeast Bank

EX. RHM-28
2/11/87

SAT 1825

[illegible]

n Date

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~~CONFIDENTIAL~~

SAT ~~000963~~

A.C.E.
Bank [illegible] Recap

	Date		Amount	
Deposits				
Initial Deposit - (SAT)	11-8-85		4000 00	
Wire Transfer	11-14-85		450000 00	
Wire Transfer	1-22-86		230000 00	
Wire Transfer	1-31-86		150000 00	
Wire Transfer	4-7-86		29000 00	
Wire Transfer	4-10-86		475000 00	
Wire Transfer	6-6-86		57022 03	1395022 03
Wire Transfer	6-12-86		10241 52	

Partially Declassified/Released on 10 FEB 88
under provisions of E.O. 12356
by K. Johnson, National Security Council

	Date		Amount	
[illegible]				
Checkbook	11-21-85		4 50	
Check [illegible]	12-5-85		232 33	
Wire Transfer - [illegible]	1-15-86		159062 9	
Wire Transfer - [illegible]	1-24-86		271126 44	
[illegible]	1-17-86		60 00	
Wire Transfer [redacted]	1-21-86		200027 50	
Wire Transfer - [illegible]	2-4-86		19458 28	
Wire Transfer - SAT	3-4-86		52268 38	
Wire Transfer - [illegible]	2-14-86		79542 50	
Bank Chg	3-5-86		6 24	
Wire Transfer - [illegible]	3-10-86		79542 50	
Wire Transfer - SAT	3-21-86		11029 43	
Wire Transfer - [illegible]	4-2-86		26902 96	
Bank Chg	4-4-86		10 00	
Wire Transfer - [illegible]	4-7-86		2518 75	
Bank Chg	4-10-86		5 00	
Wire Transfer - SAT	4-11-86		95047 50	
Bank Chg	4-14-86		15 00	
Wire Transfer - [illegible]	4-14-86		196726 50	
Wire Transfer - [illegible]	5-1-86		364266 75	
Bank Chg	5-1-86		35 44	
Wire Transfer - [illegible]			58955 92	1390061 19

5443

UNCLASSIFIED

	Date		Amount	
Bal at 6-10-86				4960 84
W/T - [illegible]	6-26-86		10963 60	

Ex # RHM-6 NO DATE

UNCLASSIFIED

	Initials	Date
Prepared By	Bdm	1/1
Approved By		

A.C.E

Banco Iberoamericano Record

	Date	Amount	
Deposits			
Initial Deposit (SAT)	11-8-85	4000 00	
Wire Transfer	11-14-85	450000 00	
Wire Transfer	1-22-86	230000 00	
Wire Transfer	1-31-86	150000 00	
Wire Transfer	4-7-86	29000 00	
Wire Transfer	4-10-86	475000 00	
Wire Transfer	6-6-86	57022 02	
Wire Transfer	6-12-86	102218 41	
Wire Transfer	10-12-86	96892 45	1594232 55

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	Date	Amount	
Disbursements			
Checkbook	11-21-85	4 50	
[illegible] Investment	12-5-85	232 33	
Wire Transfer - Panama	1-15-86	159062 19	
Wire Transfer - Panama	1-24-86	271128 04	
Bank Chg - Wire Transfer	1-17-86	60 00	
Wire Transfer [redacted]	1-21-86	200377 50	
Wire Transfer - Corp Air	3-4-86	19458 22	
Wire Transfer - SAT	3-4-86	53268 35	
Wire Transfer - Panama	2-14-86	73542 50	
Bank Chg	3-5-86	6 24	
Wire Transfer - Panama	3-10-86	79542 50	
Wire Transfer - SAT	3-21-86	11079 43	
Wire Transfer - Corp Air	4-3-86	26902 96	
Bank Chg	4-4-86	10 00	
Wire Transfer - Corp Air	4-7-86	2518 75	
Bank Chg	4-10-86	5 00	
Wire Transfer - SAT	4-11-86	95042 50	
Bank Chg	4-14-86	15 00	
Wire Transfer - Panama	4-14-86	396726 50	
Wire Transfer - Corp Air	5-1-86	36426 78	
Bank Chg	5-1-86	35 44	
Wire Transfer - Corp Air	6-6-86	58955 92	
Wire Transfer - Panama	6-26-86	10963 60	
Bank Chg	7-9-86	10 00	
Bank Chg	7-26-86	10 00	
Bank Chg	9-4-86	42 50	
Wire Transfer - SAT	9-4-86	95000 00	
Wire Transfer - SAT	12-17-86	45000 00	1541527 29

5444

UNCLASSIFIED

SAT 001112

[redacted]

28 Feb 86

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UNCLASSIFIED

Southern Air Transport, Inc.

P.O. BOX 52-4093 • INTERNATIONAL AIRPORT • MIAMI, FLORIDA 33152
Phone (305) 526-5408 • Cable Address • SOUTHRNAIR • Telex 05 18936

East Inc
P O BOX 1672
Vienna Va 22180

INVOICE Nº 08627
INVOICE DATE Feb 28, 1986
FLIGHT NO.

Flight Date: Feb 15, 1986
A/C No N 523AJ N 525AJ

[redacted]

8 Charters

AMOUNT

$ 484,000.00

TERMS

32072010B

CONFIDENTIAL

SAT000474

TERMS

TOTAL $ 484,000.00

TOTAL $ 44,000.00

UNCLASSIFIED

5445

[redacted]

27 MAY 86

UNCLASSIFIED

Southern Air Transport, Inc.

P.O. BOX 52-4093 • INTERNATIONAL AIRPORT • MIAMI, FLORIDA 33152
Phone (305) [illegible] • Cable Address • SOUTHRNAIR • Telex 05 [illegible]

SOLD TO
UDALL CORPORATION

INVOICE 48899
INVOICE DATE MAY 27, 1986
FLIGHT NO. A/C N5236J/ [illegible]

	AMOUNT
Flight Date: May 22, 1986 (N5236J)	
[redacted]	
Flight Date: May 26, 1986 (N5236J)	
[redacted]	642,000.00
Less; Prepayment	350,000.00
TERMS	
TOTAL	$ 292,000.00

5446

[redacted]

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[redacted]

EXHIBIT
Mason Exhibit
Ex. 13

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IRC33cA
4-2
[illegible]

11APR86
Ex # RHM-16
2-2-87

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EXHIBIT
Mason Exhibit
Ex. 16

RCA GA
3402972"•
SOUTHRNAIR MIA

APR 11 1040 515000
2972 IBERBAN PG
BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3420303.000 ON FRIDAY, APRIL 11, 1986.

AMOUNT: 396,590.07

TO:
BANK NATIONAL OF CANADA
290 MAIN STREET
LA SABRE, QUEBEC, CANADA
TRANSIT NO. 02531

CREDIT:
PROPAIR, INC.
ACCOUNT 505-20

AUTHORIZATION CODE IS 12913

THANK YOU

R.H. MASON

2972 IBERBAN PG•
SOUTHRNAIR MIA

RCA GA
3402972"•
SOUTHRNAIR MIA

APR 11 1052 656700
2972 IBERBAN PG
BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

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5447

ATT: HELENA FERNANDEZ
OFICIAL DE CUENTAS

WOULD YOU PLEASE CONFIRM BY TELEPHONE TO THE FOLLOWING. THE FACT THAT A TRANSFER OF 396,590.07 USD HAS BEEN ORIGINATED TO BANK NATIONAL OF CANADA FOR THE CREDIT OF PROPAIR INC. FROM OUR ACCOUNT 5051/3420303.000.

MR. LA DUC .
PROPAIR INC.
819-762-0811

PLEASE CHARGE OUR ACCOUNT FOR ANY COSTS INCURRED IN MA[illegible] THIS NOTIFICATION.

THANK YOU

R.H. MASON

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CONFIDENTIAL

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RCA GA
3462972...
SOUTHRNAIR MIA

APR 30 1150 [illegible]
2972 IBERBAN PG
BANCO DE IBEROAMERICA, S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FORM ACCOUNT 5051/3420303.000 ON WEDNESDAY, APRIL 30, 1986.

AMOUNT:	36,426.70 USD
TO:	FARMERS FIRST BANK QUARRYVILLE, PA USA 17543-7020 ROUTING CODE 031309123
CREDIT:	CORPORATE AIR SERVICE ACCOUNT 1509596700

AUTHORIZATION CODE IS 10725

THANK YOU

R.A. MASON

2972 IBERIAN PG.
SOUTHRNAIR MIA

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SOUTHRNAIR MIA

JUN 06 1157 379325
2972 IBERBAN PG
BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3428303.000 ON FRIDAY, JUNE 6, 1986.

AMOUNT: 58,955.97 USD

TO:
FARMERS FIRST BANK
QUARRYVILLE, PA USA 17543-7000
ROUTING CODE 031309123

CREDIT:
CORPORATE AIR SERVICE
ACCOUNT 1509596700

AUTHORIZATION CODE IS 12572

THANK YOU

R.H. MASON

2972 IBERBAN PG.
SOUTHRNAIR MIA

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APR 10 1215 524586
2972 IBERBAN PG
BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3420303.000 ON THURSDAY, APRIL 10, 1986.

AMOUNT:	75,000.00 USD
TO:	THE CITIZENS AND SOUTHERN NATIONAL BANK ATLANTA, GA USA ABA # 061000052
CREDIT:	SOUTHERN AIR TRANSPORT INC. ACCOUNT 000-96-497

AUTHORIZATION CODE IS 10675

THANK YOU

R.H. MASON

2972 IBEREAN PG.
SOUTHRNAIR MIA
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by K. Johnson, National Security Council

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APR 04 1148 665434
2978 IBERBAN PG
BANCO DE IBEROAMERICA, S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5951/3428303.000 ON FRIDAY APRIL 4, 1986.

AMOUNT:	2,500.00 USD
TO:	FARMERS FIRST BANK QUARRYVILLE, PA USA 17543-7030 ROUTING CODE 031309123
CREDIT:	CORPORATE AIR SERVICES ACCOUNT 1509596700

AUTHORIZATION CODE IS 12512

THANK YOU

R.H. MASON

2978 IBERBAN PG•
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by Johnson, National Security Council

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SOUTHRNAIR MIA

APR 02 1100 519290
2972 IBERBAN PG
IBEROAMERICA SA
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3420303.003 ON WEDNESDAY, APRIL 2, 1986.

AMOUNT:	26,065.46 USD
TO:	FARMERS FIRST BANK QUARRYVILLE, PA USA 17543-7000 ROUTING CODE 031309123
CREDIT:	CORPORATE AIR SERVICES. ACCOUNT 1309596700

AUTHORIZATION CODE IS 10687

THANK YOU

R.H. MASON

2972 IBERBAN PG•
SOUTHRNAIR MIA

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~~under provisions of E.O. 12356~~
by K. Johnson, National Security Council

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SOUTHRNAIR MIA

MAR 21 1138 673328
2972 IBERPAN PG
BANCO DE IBEROAMERICA SA
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5851/3428383.888 ON FRIDAY MARCH 21, 1986.

AMOUNT: 11,879.43

TO: THE CITIZENS AND SOUTHERN NATIONAL BANK
ATLANTA, GA USA

CREDIT: SOUTHERN AIR TRANSPORT, INC.
ACCOUNT 888-96-497

AUTHORIZATION CODE IS 12537

THANK YOU

R.H. MASON

2972 IBERPAN PG.
SOUTHRNAIR MIA

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by K. Johnson, National Security Council

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MAR 16 0916 637752
2972 IBERBAN PG
BANCO DE IBEROAMERICA SA
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3428363.022 ON MONDAY MARCH 16, 1986.

AMOUNT: 79,500 USD

TO: BANK NATIONAL OF CANADA
296 MAIN STREET
LA SARRE, QUEBEC, CANADA
TRANSIT NUMBER 02531

CREDIT: PROPAIR INC.
ACCOUNT 505-20

AUTHORIZATION CODE IS 12659

THANK YOU

R.H. MASON

2972 IBERBAN PG•
SOUTHRNAIR MIA

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~~under provisions of E.O. 12356~~
by K. Johnson, National Security Council

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SOUTHRNAIR MIA

MAR 04 0920 660496
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3428303.000 ON TUESDAY, MARCH 4, 1986.

AMOUNT:	19,421.50
TO:	FARMERS FIRST BANK QUARRYVILLE, PA, USA 17543-7000 ROUTING CODE 031309123
CREDIT:	CORPORATE AIR SERVICE ACCOUNT 1509596700

AUTHORIZATION CODE IS 15411

THANK YOU

R.H. MASON

2972 IBERBAN PG.
SOUTHRNAIR MIA

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SOUTHRNAIR MIA

MAR 04 0937 504040
2972 IBERBAN PG
BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3426363.000 ON TUESDAY, MARCH 4, 1986.

AMOUNT:	53,225.00
TO:	THE CITIZENS AND SOUTHERN NATIONAL BANK ATLANTA, GA. USA
CREDIT:	SOUTHERN AIR TRANSPORT, INC. ACCOUNT 003-96-497

AUTHORIZATION CODE IS 16445

THANK YOU

R.H. MASON

2972 IBERBAN PG.
SOUTHRNAIR MIA

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by K. Johnson, National Security Council

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SOUTHRNAIR MIA

FEB 20 1041 375057
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3426383.008 ON THURSDAY, FEBRUARY 20, 1986.

AMOUNT: 20,000 USD

TO: [redacted]

ROUTE THRU: CITIBANK N.A.
399 PARK AVE
NEW YORK, N.Y. 10043

CREDIT: EDWARD DE GARAY
ACCOUNT 102095-1

AUTHORIZATION CODE IS 10020

THANK YOU

R.M. MASON

2972 IBERBAN PG.
SOUTHRNAIR MIA

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by K. Johnson, National [illegible]

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FEB 13 1540 531591
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FORM ACCOUNT 5051/3428303.000 ON THURSDAY, FEBRUARY 13, 1986.

AMOUNT: 79,500 USD

TO: BANK NATIONAL OF CANADA
298 MAIN STREET
LA SABRE, QUEBEC, CANADA
TRANSIT NUMBER 02531

CREDIT: PROPAIR INC.
ACCOUNT 585-20

AUTHORIZATION CODE IS 10860.

THANKYOU

R.H. MASON

2972 IBERBAN PG•
SOUTHRNAIR MIA

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~~under provisions of E.O. 12356~~
by K. Johnson, National Security Council

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SOUTHRNAIR MIA

JAN 24 0835 493747
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3428383.020 ON FRIDAY, JANUARY 24, 1986.

AMOUNT	371,000 USD
TO:	BANK NATIONAL OF CANADA 298 MAIN STREET LA SARRE, QUEBEC, CANADA TRANSIT NUMBER 02531
CREDIT:	PROPAIR INC. ACCOUNT 505-00

AUTHORIZATION CODE IS 12898

THANK YOU

R.H. MASON

2972 IBERBAN PG+
SOUTHRNAIR MIA

Released on 11FEB88
by K. Johnson, National [illegible]

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RCA GA
6452972
SOUTHRNAIR MIA

JAN 14 0858 498676
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5851/3428383.888 ON TUESDAY, JANUARY 14, 1986.

AMOUNT 159.888 USD

TO: BANK NATIONAL OF CANADA
896 MAIN STREET
LA SARRE, QUEBEC, CANADA
TRANSIT NUMBER 08531

CREDIT: PROPAIR INC.
ACCOUNT 385-26

AUTHORIZATION CODE IS 16839. PLEASE CONFIRM TRANSFER BY RETURN TELEX.

THANK YOU

R.H. MASON

2972 IBERBAN PG.
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by K. Johnson, National [illegible]

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SOUTHRNAIR MIA

JUN 26 1457 826465
2972 IBERBAN PG

BANCO DE IBEROAMERICA S.A.
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5851/3428383.000
ON THURSDAY, JUNE 26, 1986.

AMOUNT: 10,963.06 USD

TO: BANK NATIONAL OF CANADA
298 MAIN STREET
LA SABRE, QUEBEC, CANADA
TRANSIT NO. 02531

CREDIT: PROPAIR, INC.
ACCOUNT 585-28

AUTHORIZATION CODE IS 10828

THANK YOU

R.H. MASON

2972 IBERBAN PG•
SOUTHRNAIR MIA

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SOUTHRNAIR MIA

SEP 03 1459 827006
2972 IBERBAN PG

BANCO IBEROAMERICA S.A.,
PANAMA, REPUBLIC OF PANAMA

PLEASE MAKE THE FOLLOWING TRANSFER FROM ACCOUNT 5051/3428303.000 ON THURSDAYS, SEPTEMBER 4, 1986.

AMOUNT: 95,000.00 USD

TO: THE CITIZENS AND SOUTHERN NATIONAL BANK
ATLANTA, GA., USA

CREDIT: SOUTHERN AIR TRANSPORT, INC.
ACCOUNT 000-96-497

AUTHORIZATION CODE IS 10694

THANK YOU

R.H. MASON

2972 IBERBAN PG .
SOUTHRNAIR MIA

[illegible] Released on 11FEB88
[illegible]
by K. Johnson, National S[illegible]

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SOUTHRNAIR MIA

IS MR. R.H. MASON HERE ?
YES GA

OK TKS.

2972 IBERBAN PG
DE: BANCO DE IBEROAMERICA
PANAMA 9 JUL. 1986

A: ATTN: MR. R. H. MASON
U.S.A.

REF: YOUR TELEX 8.7.86
PAYMENT ORDER FOR US$.10.963.60

ABOUT THE REF. WE SENT THIS PAY/ORDER ON JUNE 27/1986 THROUGH IRVING TRUST CO. IN NEW YORK . OUR REF. NO.01/151537

REGARDS.

HELENA FERNANDEZ

2972 IBERBAN PG
HF/MCG.+
SOUTHRNAIR MIA
.....
1500 07/09
PLS REPLY VIA TRT

Released on 11FEB88
K. Johnson, National [illegible]

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Ex # RHM-21
2-3-87

UNCLASSIFIED

RECEIVED
JAN 27 1987
BECKMAN & KIRSTEIN

1 JAN 87
1-22

EXHIBIT
Mason Exhibit
Ex. 21

Southern Air Transport
Recap of [redacted] and Tel Aviv Activity

1) January 1985 - [redacted] - Subcontractor to Arrow Air - $121,825.0
Cash Receipt Form dated January 21, 1985 001698
Draft dated January 21, 1985 on Royal Bank of Canada for $121,8.
001699

2) March 1985 - [redacted] - Subcontractor to Arrow Air - $121,825.00
Cash Receipt Form dated March 6, 1985 001700
Wire Transfer to First Chicago by Credit-Suisse for $121,825.00
001701

5448

3) December 1985 - [redacted] - $118,500.00
Cash Receipt Forms dated December 11 (001773) and December 16, 1985 (001775) + 00178
Wire Transfer to Citizens + Southern by Credit Suisse for $60,000.. + 00177
Wire Transfer to Citizens - Southern by Chemical NYC for $58,500..
001776
+ 001786

4) February 1986 - [redacted] - $121,000.00
Cash Receipt Forms dated March 6 (001781) and March 21, 1986 (001779) + 00179
Wire Transfer to Citizens + Southern by Credit Suisse for $50,000.00 00178
Wire Transfer to Citizens - Southern by Udall Corp for $71,000.00
00178

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5) April 1986 [redacted] - $120,000.00
Cash Receipts Form dated April 21, 1986 001758 + 00178
Wire Transfer to Citizens + Southern by Udall Corp for $120,000.. 00175

6) February 1986 Tel Aviv - $484,000.00
Cash Receipts Form dated February 17 (000475) and February 26, 1986 (000472)
Wire Transfer to First Chicago by C S Investments Ltd for $270,000.00
Wire Transfer to Citizens + Southern by [illegible] for $240,000.00
$214,000.00 applied to Tel Aviv [illegible]
000473
+ 001793

SAT 001821

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UNCLASSIFIED

Southern Air Transport
Recap of [redacted] and Tel Aviv Activity

3

✓ 7) May 1986 Tel Aviv - $642,000.00
001687 001690 000463
Cash Receipts Furnished on May 23, May 28 and June 18, 1986 + 0017
00168
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $410,00
$350,000.00 Applied to Tel Aviv Flights + 00178
00169
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $200,000
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $242,00
$92,000.00 Applied to Tel Aviv Flights 000465
+ 00179

✓ 8) August 1986 Tel Aviv - $25,000.00
000454 + 001777
Cash Receipts From above September 11, 1986 + 001778
000455
Wire Transfer to Citizens and Southern by Toyco SA for $50,000.0
$25,000.00 Applied to Tel Aviv Flights

✓ 9) October 1986 Tel Aviv - $25,000.00
Unpaid NO DOCUMENT

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Ex # RHM-25
2-3-87

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Nicaraguan Humanitarian Assistance Office

May 30, 1986

Ms. Cynthia A. Dondlinger
Director, Contracts & Finance
AIRMACH, Inc.
422 Maple Avenue East
Vienna, VA. 22180

Subject: NHAO Letter of
Commitment No. 603-028

Dear Ms. Dondlinger:

As you know, AIRMACH has sent this Office invoices totalling $609,700 covering fifteen flights between the United States and Central America. On May 7, we forwarded payment in the amount of $487,600, leaving an unpaid balance of $122,100.

The unpaid balance consists of the following charges:

Insurance (15 flights @ $5000 ea.)	$75,000
Positioning Surcharge (Dallas to Dulles) ...	11,100
Sortie Surcharges (9 flights @ $3000 ea.) ..	27,000
Charges for Feb. 19-20 flight.................	9,000

I have had an opportunity to review each of these items and wish to inform you that, with one exception, this Office must decline to pay them.

The basis for this Office' agreement with AIRMACH is the above-referenced Letter of Commitment, which incorporated the terms set forth in AIRMACH's letter of November 19, 1985, to Mario Calero. As will be explained in more detail below, I have concluded that, under the terms of our agreement, AIRMACH is not entitled to payment of the above-listed items, apart from the single item already mentioned.

First, with respect to the insurance charges, AIRMACH's November 19 letter set a firm price of $26,900 for flights from New Orleans to a location in Central America which had been code-named "Jerusalem." It gave no indication that an additional amount for insurance would be charged and our Letter of Commitment did not obligate us to pay for insurance as a separate item. While I note that by letter of February 28, 1986, AIRMACH proposed amending the Letter of Commitment to include insurance, no such amendment was ever agreed upon or issued. I should add that the offers which we have received from other carriers to provide the same service as that

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under provisions of E.O. 12356
by K. Johnson, National Security Council

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EXHIBIT
Exhibit
Ex. 25

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provided by AIRMACH suggest that the agreed rate of $26,900 is more than adequate to cover insurance costs as well as all flight time.

Second, with respect to the positioning surcharge for an aircraft located at Dallas-Fort Worth, again the Letter of Commitment established a rate for flights originating in New Orleans. It obviously is appropriate for AIRMACH to invoice this Office for a surcharge where we have requested that a flight divert to Dulles International Airport before proceeding to Central America. Further, because AIRMACH's base of operations is located in Miami, we have in practice paid a surcharge for diversions to Dulles where the flight originated in Miami rather than New Orleans. There is no basis, however, for payment of a positioning surcharge merely because AIRMACH chose to use an aircraft which happened to be located at Dallas-Fort Worth. To conclude otherwise would subject NHAO to open-ended commitments which it obviously is not in a position to assume. We believe it would be fair, however, to treat this flight as if the aircraft had been located in Miami and, subject to a condition stated below, to pay the $9000 surcharge customarily invoiced for flights diverting to Dulles from Miami. ok

Third, with respect to the surcharges for miscellaneous "additional sorties," neither your November 19 letter nor our Letter of Commitment made any reference to such surcharges. Further, AIRMACH's February 28 proposal to amend the Letter of Commitment to include such sorties was not accepted. Insofar as I am aware, such sorties were not related to any additional services requested by this Office after the Letter of Commitment was issued. Accordingly, NHAO cannot pay those surcharges.

Finally, with respect to the surcharge for the additional sorties during the flight of February 19-20, my understanding is that this surcharge is to cover expenses attributable to (1) AIRMACH's unilateral decision to fly to [redacted] on the night of February 19 and then on to [redacted] on the 20th, rather than flying directly to [redacted] on the 20th as directed by this Office and (2) AIRMACH's unilateral decision once at [redacted] to make a round trip flight back [redacted] to pick up additional supplies not purchased with NHAO grant funds. Any additional expenses incurred by AIRMACH as a result of these two unauthorized actions are its own responsibility. Reimbursement of such expenses was not included in your November 19 letter or our Letter of Commitment. Further, such expenses are not attributable to any action taken or requested by this Office after issuance of the Letter of Commitment. Hence, NHAO has no obligation to pay any portion of the surcharge for the February 19-20 flight.

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For these reasons, with the exception of a single surcharge for the diversion of a flight to Dulles, the unpaid items on AIRMACH's invoices cannot properly be charged to this Office. In the case of the flight which originated in Dallas-Fort Worth, we believe that $9000 would be fair reimbursement for the diversion to Dulles. Payment of such amount, however, must constitute a complete discharge of all claims by AIRMACH against NHAO. If this is acceptable to AIRMACH, please contact Phil Buechler of this Office and he will authorize transfer of $9000 to your account in the usual manner.

Sincerely,

R.W. Duemling

Robert W. Duemling,
Director

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Ex RHM-26
2-3-87

JUN 30 1604 697666
292048 ANMC UR

AIRMACH, INC.
ATTN: DICK GADD

WE ARE IN RECEIPT OF THE NHAO LETTER DATED 30 MAY 1986. I HAVE REVIEWED THE CONTENTS WITH MY STAFF AND FEEL THERE IS SOME MISUNDERSTANDINGS AND SOME MISLEADING GUIDANCE FROM NHAO TO AIRMACH, BUT FEEL A RESPONSIBLE RESOLUTION IS IN ORDER.

THE UNPAID BALANCES STIPULATED IN THE NHAO LETTER OF 30 MAY 1986 ARE:

1. INSURANCE (15 FLIGHTS AT $5,000 EA.) - TOTAL $75,000
2. POSITIONING SURCHARGE (DALLAS - DILLES) - TOTAL $11,100
3. SORTIE SURCHARGE (9 FLIGHTS AT $3,000 EA.) - TOTAL $27,000
4. CHARGES FOR FEBRUARY 19 - 20 FLIGHT - TOTAL $9,300

GRAND TOTAL - $122,100

AS YOU CAN SEE, THIS IS OVER 80 PERCENT OF AIRMACH'S BILL. SOUTHERN AIR WOULD RECOMMEND WE RESOLVE THE DIFFERENCES AS FOLLOWS:

1. INSURANCE: PURSUANT TO DISCOVERING AN INSURANCE OVERRIDE TO OUR NORMAL WAR RISK OF $5,000 PER TRIP INTO REGIONS OF CENTRAL AMERICA, WE IMMEDIATELY NOTIFIED AIRMACH AND NHAO OF THIS SURCHARGE. NOT ONLY WAS IT INCLUDED IN YOUR FEBRUARY 20TH LETTER TO NHAO, BUT I PERSONALLY MET WITH MR. DUEMLING IN MY OFFICE AND EXPLAINED THE SITUATION. I FURTHER EXPLAINED WE WOULD ONLY CHARGE WHAT WE ARE ACTUALLY CHARGED. WE FURTHER STATED THIS IN OUR WIRE DATED 21 APRIL 1986. NHAO'S ACTION OF NON-OBJECTION CLEARLY INDICATES ACCEPTANCE. THE FOLLOWING IS A RECAP OF SAT'S ACTUAL INSURANCE SURCHARGES.

NHAO INSURANCE BILLINGS:

FLT. DATE	A/C	INSURANCE CHG.
1-17-86	N251SF	5,000.00
2-19/20-86	N251SF	5,000.00
3-01-86	N251SF	3,250.00
3-02-86	N251SF	3,250.00
3-03-86	N251SF	3,250.00
3-04-86	N521SJ	2,812.50
3-05-86	N521SJ	2,812.50
3-07-86	N251SF	3,250.00
3-06-86	N521SJ	2,812.50
3-10-86	N521SJ	2,812.50
3-13-86	N251SF	3,250.00
3-25/26-86	N521SJ	3,750.00 "
3-27/28-86	N521SJ	3,250.00
4-04-86	N521SJ	3,250.00
4-09-86	N521SJ	3,750.00 "
		$51,5[illegible]

" OVERNIGHT

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2. POSITIONING SURCHARGE: SOUTHERN AIR TRANSPORT IS WILLING TO ACCEPT THE $9,000 IN LIEU OF $11,000 AS BILLED.

3. NHAO LETTER OF COMMITTMENT NO. NHAO-609-034, AGAIN RECOGNIZES AND ACCEPTS THE CHARGES NOW BEING DENIED. THESE CHARGES ARE FOR DELIVERIES MADE AT THE DIRECTION OF NHAO AND WE SEE NO OPTION BUT TO PAY THE RIGHTFUL INVOICES. MR. DUEMLING'S LETTER STATES THAT SUCH SORTIES WERE NOT RELATED TO ANY ADDITIONAL SERVICE REQUESTED BY HIS OFFICE. I SUGGEST HE DISCUSSES THIS WITH HIS OPERATIONS MANAGER WHO IS WELL AWARE OF THESE REQUIREMENTS.

4. RATHER THAN MAKE ACCUSATIONS OF ANY SORT TO THE INTEGRITY OF THE NHAO OPERATIONS MANAGER, SOUTHERN AIR WILL ACCEPT NON-PAYMENT OF THIS CHARGE.

I BELIEVE THAT IN REVIEW OF THIS PROPOSED SETTLEMENT, ALL PARTIES WILL FIND IT FAIR AND EQUITABLE. I MUST SAY THAT SOUTHERN AIR IS NOT IN THE HABIT OF "SETTLING AFTER THE FACT" AND I'M SURE, HAD THESE ISSUES BEEN RAISED IN TIMELY FASHION, THIS COULD HAVE BEEN AVOIDED BY RESOLUTION OR TERMINATION OF CONTRACT.

PLEASE ADVISE.

BEST REGARDS,
WILLIAM G. LANGTON, PRESIDENT

292048 ANMC UR
.
SOUTHRNAIR MIA

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RECEIVED
JAN 27 1987
BECKMAN & KIRSTEIN

22JAN8

1-22-

1g

Southern Air Transport
Recap of [redacted] via Tel Aviv Activity

1) January 1985 - [redacted] Subcontractor to Arrow Air - $121,825.0
Cash Receipt Form dated January 21, 1985 001698
Draft dated January 21, 1985 on Royal Bank of Canada for $121,8
001699

2) March 1985 - [redacted] Subcontractor to Arrow Air - $121,825.00
Cash Receipt Form dated March 6, 1985 001700
Wire Transfer to First Chicago by Credit Suisse for $121,825.00
001701

3) December 1985 [redacted] - $118,500.00
Cash Receipt Forms dated December 11 and December 18, 1985 (001773, 001775) + 00178
Wire Transfer to Citizens + Southern by Credit Suisse for $60,000. + 00177
Wire Transfer to Citizens + Southern by Chemical NYC for $58,500.
001776
+ 001786

4) February 1986 [redacted] - $121,000.00
Cash Receipt Forms dated March 6 and March 21, 1986 (001781, 001779) + 00179
Wire Transfer to Citizens + Southern by Credit Suisse for $50,000.00 00178
Wire Transfer to Citizens + Southern by Union Cred for $71,000.0
00178

5) April 1986 [redacted] $120,000.00
Cash Receipts Form dated April 21, 1986 001758 + 00178
Wire Transfer to Citizens + Southern by Union Cred for $120,000. 00175

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6) February 1986 Tel Aviv - $484,000.00
Cash Receipts Form dated February 17 and February 26, 1986 (000475, 000472)
Wire Transfer to First Chicago by C S Investments Ltd for $270,000.00
Wire Transfer to Citizens + Southern by Un Jrdn Commrs for $240,000.0
$214,000.00 applied to Tel Aviv Accounts
000473
+ 001793

Partially Declassified/Released on 11FEB88
under provisions of E.O. 12356
by K. Johnson, National Security Council

[redacted]

5450

SAT 001821

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Southern Air Transport
Recap of [redacted] and Tel Aviv Activity

✓ 7) May 1986 Tel Aviv - $642,000.00
001687 001690 - 000463
Cash Receipts Forms dated May 23, May 28 and June 18, 1986 + 0017
00168
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $410,000
$350,000.00 Applied to Tel Aviv Flights + 00178
00169
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $200,000
Wire Transfer to Citizens and Southern by Hyde Park Square Corp for $242,00
$92,000.00 Applied to Tel Aviv Flights 000465
+ 00179

✓ 8) August 1986 Tel Aviv - $25,000.00
000454 + 001777
Cash Receipts Form dated September 11, 1986 + 001778
000455
Wire Transfer to Citizens and Southern by Toyco SA for $50,000.
$25,000.00 Applied to Tel Aviv Flights

✓ 9) October 1986 Tel Aviv - $25,000.00
Unpaid NO DOCUMENT

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